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Making Surrey a better place

Corporate Business Plan

2010 - 2014

National financial context

Following the near collapse of the UK's banking system, the subsequent part nationalisation of a number of banks in autumn 2008, and the world wide recession following the 'credit crunch' it is widely known that the public sector finances are in a weak position.

Combined with the economic downturn and the financial services crisis, public sector net borrowing is estimated to increase from £81.4bn (2008/09) to £131.6bn (2010/11). The Chancellor has a "golden rule " that the Public Sector net debt as a percentage of Gross Domestic Product should not exceed 40%. However, due to the financial services crisis, a contracting economy and falls in tax revenue, this ratio is could rise to over 50% in the coming years.

The current government, although in the middle of a three year Comprehensive Spending Review for the public sector, has increased the level of efficiency savings from 3% per year to 4%. The aim of this is to achieve efficiencies of £35bn. It has already announced plans in the 2009 Budget to reduce capital spending by £14bn, or over 15% from 2013, and is looking at reducing the spending on education by £2bn, despite assurances of this sector being protected. The local government finance settlement for 2010/11 is expected late November 2009. Although we are not expecting any material changes in respect of our formula grant or area based grant, there remains a level of uncertainty over special grants.

The next Comprehensive Spending Review is due in the late autumn of 2010. This will be some six months after the latest date for next general election. All the major political parties are now looking at reducing public expenditure and investment to bring the public finances back to a more sustainable position. Therefore, whichever political party is in power then, it is expected to be a very tough settlement for the public sector as a whole, and for local government in particular. This will increase depending on the extent to which other sectors are protected.

Surrey County Council financial context

Budget planning assumptions

At the moment Surrey County Council receives central government funding to cover around 20% of net revenue spend (excluding schools funding and specific grants). This means 80% of what the county spends comes from Council tax and other charges. However, in view of the challenges faced by the public finance as set out above, it is prudent that we plan for a significant reduction in our level of funding in the very near future so that we have a sustainable budget in the longer term.

Only once government defines its reduction proposals more precisely will the county be certain which services will be most affected. However, work has started internally and a number of budget planning assumptions have been agreed to determine an indicative budget for 2010-2014, as summarised below:

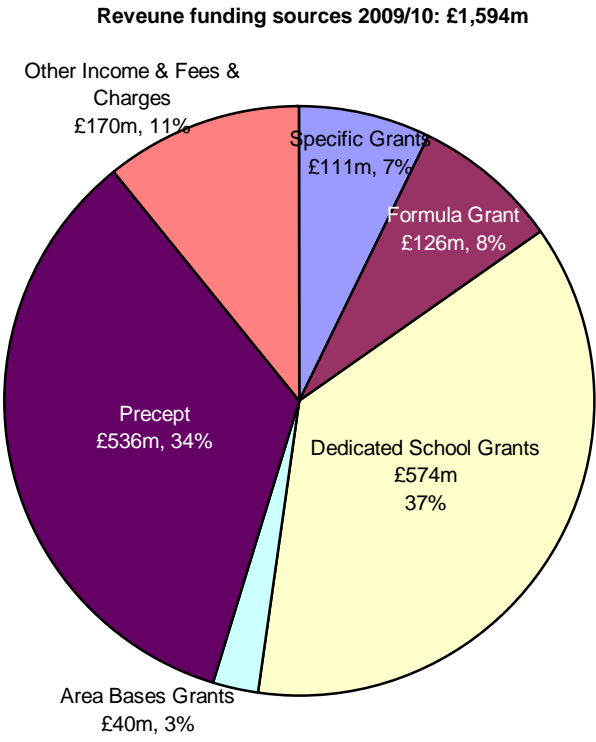
- a significant and phased reduction in government revenue funding, £70m
- an estimated annual increase in council tax of 2.5% per year
- a provision for inflation pressures, pay and non-pay
- a forecast provision for service growth based upon pressures identified in the current medium term financial plan
- a reflection of the revenue costs of borrowing based on an estimated capital programme
- an allowance for other corporate pressures, for example anticipated increased pension fund contributions.

Based on these assumptions, the county would need to achieve a cumulative £142m worth of revenue reductions over the four-year period 2011-2014. As any of these assumptions change the total £142m would change accordingly. As the budget process develops each of the assumptions will become firmer.

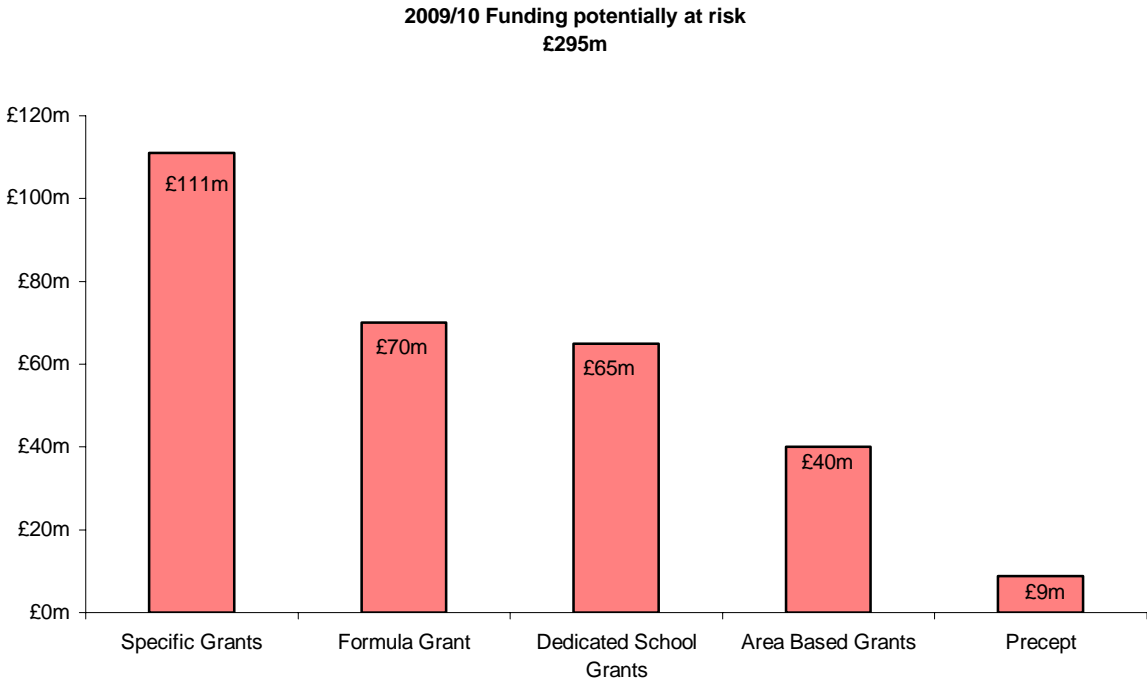
Further, the level of grant funding for capital schemes is also uncertain from 2011/12, and work is underway to ensure the capital funding and priorities are integrated with the revenue priorities to maximise effectiveness in use of our limited resources.

Funding uncertainty

The figure below shows the council’s total gross revenue funding sources for 2009/10.



Although the level of government funding is known for 2010/11, either formula based or grants, the level for future years will not be known until the Comprehensive Spending Review (CSR) 2010 is announced next year. A recent analysis suggests that up to around £300m (almost 20%) of the council's current revenue funding could be at risk of reducing in future years, as illustrated below:



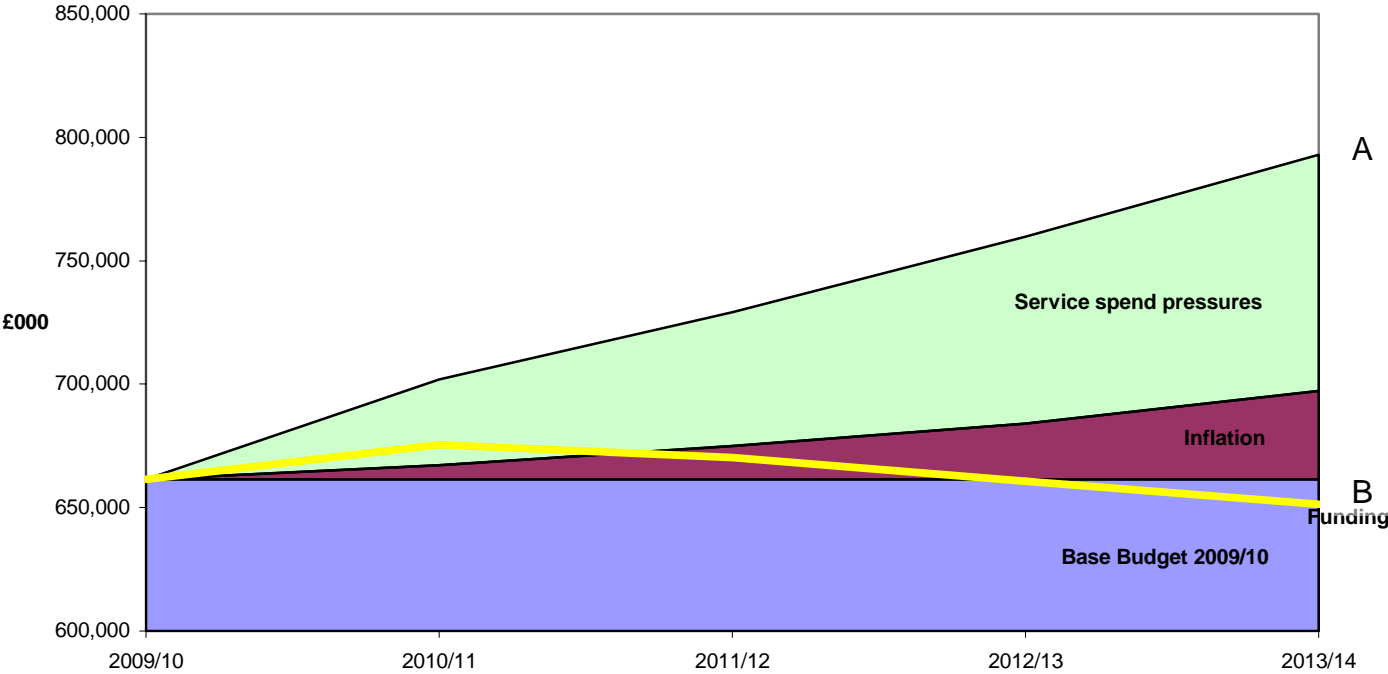
For budget planning purposes, it has been assumed that the council's annual net revenue budget reduces by £70m (equivalent to almost 10% of our current net budget), over the three years to 2014. The impact of this is that the council would move from a position where 20% of its net funding comes from central government, to one where only 10% of its net revenue funding comes from central government.

Revenue spend pressure

At the same time as funding sources are at risk, the pressure on the council's services to increase spending continues, for example through an ageing population, increasing pension fund contributions and waste disposal costs. The figure below illustrates the cumulative impact of the current medium term financial planning pressures in light of the assumptions about the level of inflation, pay and non-pay as set out above. By overlaying the reduction in projected government formula funding,

the scale of reductions necessary to prepare a sustainable budget by 2013/14 is clear. The graph below illustrates the need to move from a projected spend at point 'A' to a forecast level of funding, at point 'B', an indicative difference of £142m.

The projected funding shortfall after 4 years



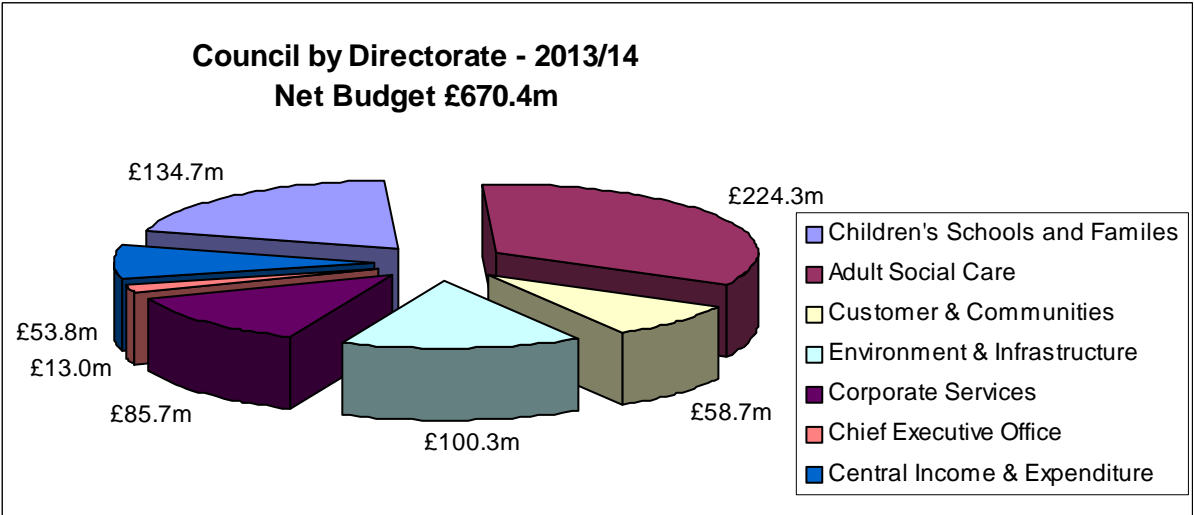
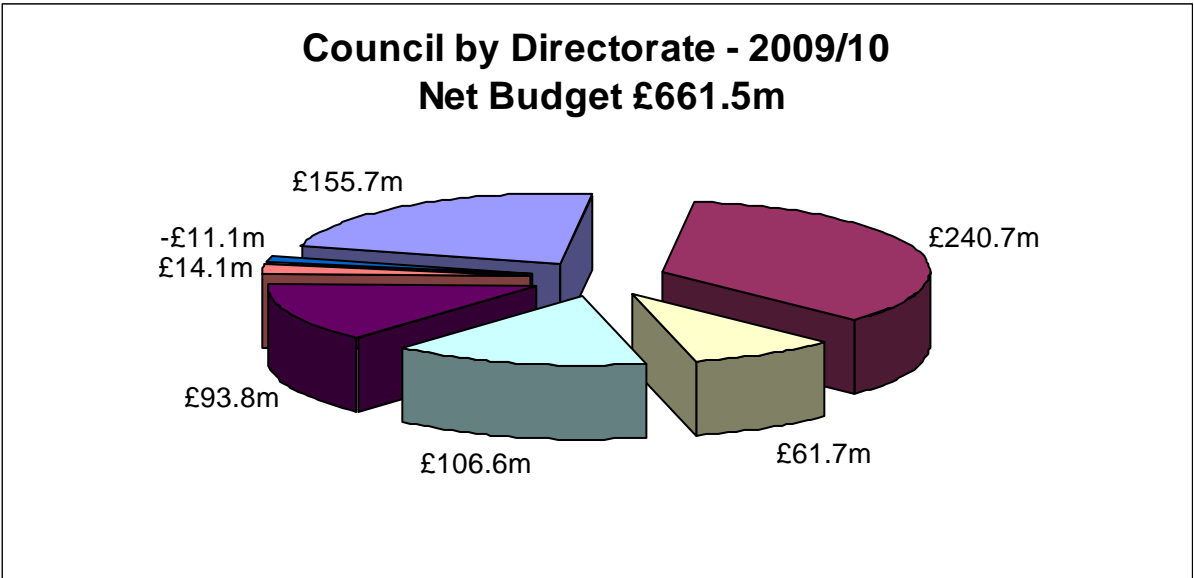
Following the detailed budget development process, the service send pressures may rise, which would increase the level of savings required.

Progress towards a sustainable budget

The indicative net revenue council base budget (i.e. point 'B') would need to be £651.3m. The Chief Executive and the Directors are working to set out service priorities and how to deliver services more effectively and efficiently in their Directorate Strategies and Directorate Business Plans, in order to move from point 'A' to point 'B'. They are also exploring the opportunities to increase income generation from sales, fees and charges.

The first pie chart below illustrates the current net revenue budget for the county in 2009/10, £662.6m. The second pie chart shows the proposed net revenue budget of £670.4m by 2013/14. This figure is after implementation of the proposals made so far

towards the indicative target by each Directorate. This means that current proposals fall short of the target (B) by around £19m (£670.4m - £651.2m).



A summary of the total proposals to date is attached below, although the budget preparation process will continue during the autumn with final agreement set to be confirmed at the Full Council meeting on 9 February 2010.