Our Challenge to Surrey County Council – don't just secure more funding for day-to-day funding from central government, but invest differently – in a better and more sustainable future for Surrey.

At the 2017 budget setting meeting, the Chief Financial Officer of Surrey County Council noted that the current revenue budget was 'not sustainable' in financial terms. We argue they are not sustainable more broadly – more support needed from central government[1] to be socially sustainable and more finance invested in different things to make Surrey more environmentally sustainable. The situation has not improved – next year's budget includes significant unmet 'savings' (cuts) carried forward in the form of around £20m of additional demand pressures[2] that were unable to be implemented in 2017/18.

This document presents a series of suggested amendments that recognises that capital cannot be simply raised via Council Tax alone, and that there is a tangible requirement for a needs-based budget. A sustainable alternative budget would require a combination of an increased revenue support as well as start-up funding of at least £116 million over 2 years to deliver at least a 10% return on investment that delivers real improvements in Council services. This would be funded from capital receipts and public works loan board finance from central government. The exact figures will depend on investment cases being made for these proposals.

Our Suggested Revisions to the Council's Recommendations on the Council's Capital Budget (the revenue budget – the cuts – need more money from central government, which is down to the Conservatives)
:

1. Approve the application of an additional £116m capital receipts and funds from the PWLB to fund items set out in this budget amendment.

2. Require the Chief Executive and the Director of Finance to lead the development of a wider transformation programme to move the Council to a sustainable position; socially, environmentally and financially; from 2019/20.

3. Commit to review the Corporate Strategy and Investment Strategy, to extend and expand the capital and investment programme to enable the Council to be more sustainable environmentally and socially and improve quality of life for Surrey residents, through invest-to-save and transformation programmes that improve the revenue budget's financial sustainability.

4. Secure a sustainable (not-one off) injection of new money from central government into the final Local Government Financial Settlement to ensure that existing council services are protected – and bring back a new budget when this is secured. This should include sufficient finance to improve how we look after children and support families, care for older and disabled people and prevent homelessness) and move beyond alleviating pressures on other

[1] Mainly in the 'revenue budget', as well as one-off grants.
[2] £10.5m identified in the budget for Adult Social Care alone, with around £9m of the £13m unmet savings in the 2016/17 year noted as sitting within the Children Schools and Families budget.

parts of the public sector, to enable local councils to be proactive in transforming the environmental sustainability and quality-of-life of all in Surrey.

<u>The National Situation</u>

This last point requires a more sustainable funding settlement, not just for Surrey but for all councils across the UK. This requires not just a fairer funding allocation across councils, but substantially more money (a higher priority) given by government for the front-line services and local investments that local councils provide.

Local government makes a difference to people's lives by delivering more than 1,300 different statutory duties and responsibilities. But core central government funding is set to be even further reduced by half over the next two years. Councils will be able to increase their core Council Tax by an additional 1 per cent in the next financial year, without a local referendum. But, even if all Councils raised Council Tax by the maximum allowed over the next two years they would raise £540 million – well short of the overall gap of £5.8 billion by 2020.

The Government needs to reverse these funding reductions.

An injection of new money from central government in the final Local Government Finance Settlement would help protect the services which look after children and support families, care for older and disabled people and prevent homelessness, as well as alleviating pressures on other parts of the public sector.

This is essential to ensure that none of the savings proposed in the budget result in a reduction of frontline services.

SCC Budget, An Alternative View: Sustainable Local Government Settlement and Start-up Capital for Sustainability.

The budget sets out limited details of the budget pressures and savings identified, although this is substantially more than was available at this stage of the budget-setting process in previous years. However, it is clear that the budget proposes extensive savings (cuts), particularly in Adult Social Care and Children's Services, whilst the percentage reduction continues to be higher in other parts of the Council's services, as shown below.

Breakdown of Surrey County Council Directorate budgets over the last five years:

Gross Budget	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
	£m	**£m**	**£m**	**£m**	**£m**
Adult Social Care	412	429	437	460	497
Children, Schools and Families	394	403	433	455	480
Schools	408	409	390	345	314
Environment and Infrastructure	147	140	138	142	150
Fire	47	48	47	44	46
Other services	244	242	242	235	218
Gross Budget	**1244**	**1262**	**1297**	**1336**	**1391**

Gross Budget (excluding Direct Schools Grant)	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	
	£m	**£m**	**£m**	**£m**	**£m**	**4 year change**
Adult Social Care	33.1%	34.0%	33.7%	34.4%	35.7%	2.6%
Children, Schools and Families	31.7%	31.9%	33.4%	34.1%	34.5%	2.8%
Environment and Infrastructure	11.8%	11.1%	10.6%	10.6%	10.8%	-1.0%
Fire	3.8%	3.8%	3.6%	3.3%	3.3%	-0.5%
Other services	19.6%	19.2%	18.7%	17.6%	15.7%	-3.9%
Total (excluding schools grant)	100%	101%	104%	107%	112%	11.8%
	annual increase	1.4%	2.8%	3.0%	4.1%	

Taking Back Control through Extending Public Sector Transformation
We *will* need more money to invest in a sustainable future – cutting is simply managed decline, and an abdication of responsibility. We need a long-term budget. Our position is that in spite of the cuts proposed, we still need to think long term. We should invest in transformation for the longer term now, and then pay less later.

Rather than proposing more short-term, untenable cuts, we would seek to address the continued decline in services by adopting a joined-up view that looks at investment in delivering sustainable savings, measurable outcomes and public-sector transformation together.

A Joined-up Approach
Actionable alternative approach to binary cuts to be considered:

1. In-sourcing when procurement contracts are up for renewal (limited scope for this in scale in 2018/19 – but significantly greater in 2019/20, including the Anchor Care Home Contract which is due for renewal in March 2019). Savings will impact future years.
2. Additional finance from central government, to bridge funding gap (and continue to share responsibility for funding of care).
3. Additional transformational funding from capital programme, to better deliver Council services – delivering an 'Invest to Save' revenue budget
4. Shift investment within £1 billion property investment strategy to energy efficiency and renewable energy (buildings) improvements. Limit this £1 billion property investment to within Surrey, and commit to providing a component of social housing as part of the investment criteria.
5. Utilise £1.2 billion initiative to develop County Council owned sites (where on brownfield sites and not on Green Belt) to commit to providing affordable homes and buildings with a high standard for environmental sustainability.
6. Establishment of a new Energy Services Company to develop partnership opportunities in Surrey, notably with Thames Water (solar farm on reservoirs in Spelthorne and investment in anaerobic digestion at sewage treatment plants across Surrey to improve sewage treatment[3]), and Surrey Wildlife Trust and others for sustainable woodland management and wood fuel use in Surrey.
7. Expansion of transformational investment proposals (see Appendix XXX of main budget) to include additional (and shift in) investment in recycling and waste-related infrastructure.

Capital Investment Proposals – key areas to invest in from now, to improve situation for 19/20 (proposals span first two years of MTFP period)

Area	Proposal	Capital Investment	Indicative ROI or payback
School Buildings	Renewables and Energy Efficiency standard uplift through separate investment fund to make all Surrey schools Outstanding.	£5m/year for new schools[4] £5m/year over at least two years for existing schools[5]	Target 5 years, depending on schemes.
Corporate Estate	Renewables and Energy Efficiency standard uplift of existing buildings, developing previous MTFP proposals. Business case for LED switch	£10m (£3.2m already identified) LED in buildings cost estimate requires outline business case.	ROI >10% based on earlier estimates (now higher energy prices).
Property Portfolio	Energy efficiency and renewables with clawback from tenancies, and raise capex value.	£10m.	Target ROI 10% minimum.
Energy Investment Portfolio	PV generation and battery storage schemes. 3 initially proposed: Trump's farm landfill site, QE2 reservoir, roof-mounted arrays on waste bulking buildings.	£6m for roof mounted and £2.5m for Trumps Farm array[6] , and £7m for Queen Elizabeth 2 reservoir array. £0.5m for battery storage.	ROI 7-10%
Waste/recycling	Investment in 2 material recycling facilities. Better recycling collection	£40m invest to save from 19/20	5 years – estimate, full business case required
Waste/recycling	Invest in more recycling segregation	£20m invest in 18/19 to save to save from 19/20 or later.	2-4 years payback.
Highway Infrastructure	Funding should be the focus on bids to LEPs for small-scale improvements.	In response to LEP funding to supplement revenue budget allocations.	Scheme dependent.
Air Quality and Sustainable Transport	Utilise Google maps to recommend bus-service extensions – to inform business cases. Investment in electric fleet vehicles. Improvements to business travel. Initiatives to deliver against forthcoming air quality strategy and action plan.	Not estimated	Individual business cases required.
Social Care, General	Anchor Care Homes PFI ends on 31 March 2019. Significant in-year	Develop business-case to bring care services back in-house. Review	Relates to future procurement options to reduce costs

[4] Based on 10% of school basic need as separate invest-to-save budget (reference Surgenor & Butterss, 2008).
[5] Based on £9.6m at 10% ROI in Surrey County Council Carbon and Energy Strategy 2015-2019.
[6] Based on 9MWpeak installed capacity over 7,200 m^2 roof space at £800/m^2 , and comparable unit costs at Trump's Farm.

	procurement decisions, particularly in 19/20.	case to change delivery model in other contracts.	and/or improve outcomes.

APPENDICES.

Appendix 1 – Breakdown of Key Opportunity Areas Identified

New School Buildings & Portfolio Building Energy Efficiency Improvements: The additional cost to build schools to a higher energy performance could be separately financed. This could include both more efficient 'built fabric' and building integrated renewables. Currently buildings are provided according to the minimum standards of the various Surrey Borough and District Councils - so energy performance varies for new schools across the county. This cost could be recovered from schools through a legal agreement, with a claw-back (as is sometimes imposed on developers to provide affordable housing). This would improve profitability of our capital investment and improve the culture of sustainability in schools. £3.2m of investment is already costed, as set out in Appendix 2 below.

LED lighting in buildings: Surrey County Council has recognised the 60% financial and carbon savings possible through shifting the currently (quite energy efficient) street lights to LED. The same case could be made across the public-sector buildings, including those owned by Surrey County Council. This could be funded through an invest-to-save initiative direct by Surrey County Council. As for the street light initiative, we propose other funding sources should also be sought (Cabinet, 30th January 2018, item 13).

Road Safety and Local Highway Improvements investment: Cuts to the County Council budget have resulted in less money being spent on local 'community scale' highway improvements that benefit walking and cycling - alongside cuts to some bus services. The overall return on investment for this type of investment is higher. Funding should be the focus of bids to LEPs by Surrey County Council as an increased priority in our Highway budget and sought from central government.

Waste _and_ Energy infrastructure Investment: We propose that the County Council should shift from proposing more investment in incineration-type energy-from-waste plants. Instead (either through the PFI or separately), the Council should invest in new reuse and recycling facilities, and increase renewable energy generation and use across Surrey. The following is proposed:

- Investment in two or three material recycling facilities (MRFs) so the Council can fully benefit from the financial value of separated streams of recycling collected. Two glass-plastic MRFs are considered here. A 50,000 tonne/year MRF would need a warehouse around 100 x 40m (say 0.5 Ha) with a similar size of external space (access, etc.). This gives an overall scale of around 1Ha.
- Increasing recycling bulking capacity to enable separated collection of glass and paper/card from households and bring sites.
- Invest-to-save fund for Councils that insource waste contracts for vehicles so that new (or retrofitted) waste collection vehicles are able to e sort either three types of recyclables (paper and card, other dry mixed recyclables, food waste – as currently the case in Reigate and Banstead) or shift to four types (as above, with glass collected separately – as proposed in Reigate and Banstead's TEEP, 2017 – add ref).

This is anticipated to result in £8-10m net reduction of waste collection costs across Surrey through increasing overall recycling incomes (see Appendix 3). The current shift in world recycling prices will increase this cost difference.

- The Surrey Local Waste Plan consultation documents highlight that only one sewage treatment plant in Surrey currently uses anaerobic digestion (AD) to capture energy from sewage sludge decomposition. We propose that the Council works with Thames Water to create a network of smaller-scale AD plants across Surrey. While the new Agrivert plant may have sufficient capacity (alongside the AD plant at the new Shepperton facility) to take all the food waste collected by the Council, there could be more capacity to include the commercial and industrial (including hospitality) sectors. This could be a joint investment between Thames Water and Surrey County Council.
- Additional support for reuse initiatives. This could be co-funded by government (including Surrey's universities) to support new innovation start-ups, increased support to scale-up voluntary sector capacity (such as achieved through the London Waste and Recycling Board in the capital) and linked to wider rural economy/resource use initiatives.

Appendix 2 - Latest Surrey County Council Estimate of Savings from Energy Efficiency Investment in Corporate Property and Schools

Appendix B: Indicative Investment and Return Schedule[1] for Corporate Estate

Project type	Lifetime of measure (Yrs)	Investment (multiple sources) (£'000k)	Energy savings & income per yr (£'000k)	Simple payback (Yrs)	Carbon saving (tonnes CO_2)	Cost Effectiveness (£ /lifetime tonne CO_2)
Building Management Systems	10	120	15	8	82	147
Boilers	10-14	1,212	105	9-13	585	148
Heating Systems	7-15	436	171	2-9	955	46
Insulation	8-30	370	117	2-5	654	25
LED Lighting	20-25	279	59	5	225	56
Lighting Controls	9	5	1	4	5	110
Lighting Upgrades	20	69	22	4	279	12
Monitoring and Targeting	10	9	5	2	21	45
Motor Controls	10	19	10	3	39	50
Renewables [2]	11-20	120	7	5-19	28	217
Ventilation	14	9	5	2	19	32
Voltage Management		0	0		0	
Sub Total		2,648	516		2,891	
Contingency [3]		530	-103		-578	
TOTAL	**n/a**	**3,178**	**413**	**8**	**2,313**	**n/a**

1. This is an example of a potential scale of investment and savings (financial and carbon) that could result from an example mix of energy efficiency and renewables measures. The is for illustrative purposes of the potential relationship between investment and return, not a projected schedule for delivery.

2 Renewables used in this scenario mainly relates to solar PV as scope for replacing oil with biomass is considered limited within the corporate estate

3. Contingency: A risk adjustment has been made to cover a potential inflation in the cost of measures, a reduction in cost savings and a reduction in carbon emissions, compared to standard assumptions. The reported average payback period for the investment sum as a whole, is given <u>after</u> making these adjustments.

Appendix C: Indicative Investment and Return Schedule[1] for schools

Project type	Lifetime of measure (Yrs)	Investment *(from non-SCC sources, such as 0% Salix loans)* (£'000k)	Energy savings & income per yr (£'000k)	Simple payback (Yrs)	Carbon saving (tonnes CO_2)	Cost Effectiveness (£ / lifetime tonne CO_2)
Building Management Systems	10	120	13	9	82	147
Boilers	10-14	160	13	9-13	79	145
Heating Systems	7-15	216	45	2-9	279	77
Insulation, draght proofing and glazing	8-30	952	304	2-5	1,866	22
LED Lighting	20-25	683	114	6	459	68
Lighting Controls	9	73	18	4	74	110
Monitoring and Targeting	5	9	5	2	21	90
Motor Controls	10	19	10	2	39	50
Renewables, including boilers [2]	11-20	1,275	252	5-19	1,287	76
Ventilation	14	0	0	2	0	
Sub Total		3,508	775	5	4,185	
Contingency [3]		702	-271		-837	
TOTAL	**n/a**	**4,210**	**503**	**8**	**3,348**	

1. This is an example of a potential scale of investment and savings (financial and carbon) that could result from an example mix of energy efficiency and renewables measures. The is for illustrative purposes of the potential relationship between investment and return, not a projected schedule for delivery. County funded maintenance projects (from the schools's maintenance grant) may also contribute carbon reduction benefits on the maintained schools' estate, but such works are not included in this scenario. (schools sheet only). Academies and Voluntary Aided schools are not included in the above scenario, but a similar range of opportunities exists for these schools.

2 Renewables used in this scenario are biomass boilers replacing oil and solar PV. The funding for solar PV projects in schools may continue to be sourced from thrid party finance arrangements with associated long term discounted power purchase agreements, as is the most common arrangement at present.

3. A risk adjustment has been made to cover a potential inflation in the cost of measures by 20%, a potential reduction in cost savings by 40% and a reduction in carbon emissions by 20%, compared to standard assumptions. The reported average payback period for the investment sum as a whole, is given <u>after</u> making these adjustments.

Appendix 3 - Alternative Options to bridge funding gap through increasing recycling revenue. (Originally presented to Environment and Infrastructure Select Committee, 11 October 2017)

Increasing the quality and quantity of recycling has three advantages as an approach to reducing the waste budget:

- Increasing revenue through improving and extending service which is well valued by Surrey residents;
- Increasing revenue contributes directly to meeting SCC and national recycling targets; and
- Greater long-term revenue potential than community recycling centre proposals and reduction of recycling credits, both of which could stall recycling rates and make revenue increases harder to realise going forward.

The government's waste agency, WRAP, made the case for improved household recycling collection in its Recycling Consistency Report in 2016[7]. This highlighted how to increase the quality and quantity of recycling. Key proposals are set out under option 1 (increasing recycling quality) and option 2 (increasing amount of recycling) below:

<u>Option 1 – Quality of recycling: raised revenue through better kerbside separation.</u>

Recycling revenue can be increased through two or three streams of recycling: paper and mixed recycling or paper, glass and mixed recycling all separate (with food and garden waste also collected separately). This will make more money because a) contamination rates are typically lower and b) recycling value is higher. There is a current trend towards this type of recycling collection. For example, the South London Waste Partnership has switched. This would, in effect, mean rolling out the Reigate and Banstead recycling format across Surrey. This requires:

- single paper 'black box' per household (limited cost)
- restructuring recycling rounds and collections (impact varies)

The capital roll-out cost of this would need to be estimated.
The financial impact can be estimated by contrasting average revenues achieved by Surrey Waste Partnership and Reigate and Banstead:

Area	Paper revenue/tonne	Glass, plastic and glass revenue/tonne	Average/tonne (based on 60% paper by weight)
Reigate and Banstead(1)	£75	£0 tonne	£45
Most Surrey Boroughs (2)	-£40/tonne		£-40

Note 1. Source of costs: WRAP Material Pricing Report, RBBC 2016 budget scrutiny – conservative figures. (Total revenue for Reigate and Banstead/household from recycling in 2016 noted as £750,000, which over 14,000 tonnes of dry mixed recycling is £53/tonne, or £13.50/household).
Note 2: Source of rates: Surrey paper to last E+I Select Committee

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[7] See WRAP (2016) Supporting evidence and analysis: The case for greater consistency in household recycling. URL: http://static.wrap.org.uk/consistancy/Read_more_about_the_framework.pdf

Applying this across the rest of Surrey (based on 115,000 tonnes of dry mixed recycling across Surrey – 101,000 excluding Reigate and Banstead) = 101,000 x £85 (differential/tonne) = **£8.6 million**

The WRAP report notes that separate collection should reduce contamination rates, but this will already be reflected in the different recycling revenues set out above.

Option 2. Quantity of recycling: increase recycling rate

This focuses on opportunities for doorstep recycling that are not currently raised in the CRC options report. Other opportunities to increase recycling rates at CRCs (in line with best practice):

- **Communication campaigns and standardisation** to increase participation and separation rates. The WRAP reports that this increases participation by up to 7%
- **Limiting effective weekly containment** to 120 litres increases recycling (not clear to what extent this applies). The WRAP Consistency report (2016) estimates that limiting effective weekly containment to 120 litres increases recycling by 7.2+/- 2.9 percentage points, at a cost of £9-£27/household/year.
- **Completing roll-out of better recycling scheme to flats and communal properties**. The Anthesis Hard to Reach Property Review (August 2016, produced for Surrey County Council) estimated that around 19,000 flats/communal properties in Surrey could have better dry mixed recycling collections and 35,000 do not yet have food waste collections.

Overall increase in financial value depends on whether or not option 1 is implemented:

Recycling Rate increase (1)	Without Option 1 (2)	Without Option 1 (3)
+ 5%	£1.9 million	£11.6 million
+ 10%	£3.7 million	£14.5 million

Note 1: Based on 530,000 tonnes total annual waste.
Note 2: Based on £110 disposal cost and average £40/tonne dry recyclate gate fee as noted in report to last E+I select committee meeting.
Note 3: Based on additional £85/tonne from option 1 above for 50% of recycling. This includes the benefit of option 1 above for all existing waste across Surrey.

Appendix 4 – Outline Case for Expanding Social Housing Investment by Surrey County Council.

There is a need for more genuinely affordable housing in Surrey, which requires more financial support from central government and/or Surrey's councils:

- **Growing shortfall in genuinely affordable housing.** The Chartered Institute of Housing has warned that the current fall in the number of social rented homes is set to continue, and predicted that, by 2020, nearly 250,000 such homes will have been lost in just eight years.

- **Homelessness** continues to increase. It has now risen for the seventh year running and now exceeds 10,000 across the UK[8].

- I**mpact of net loss of social housing under Right to Buy.** The Government has ordered local councils to sell off their most valuable social homes to help fund the extension of Right to Buy. Many are expected to end up in the hands of buy-to-let landlords and private investors. The Local Government Association predicts that almost 90,000 Council homes will be privatised by 2020 as a result of this policy.

- The UK has become increasingly reliant on private property developers and housing associations to build the homes that the country urgently needs. A large proportion of these homes, however, are marketed at full market rents or slightly reduced "affordable" rents – significantly more expensive than the social rents that have traditionally been applied to Council-owned properties. Surrey County Council should set out a clear policy commitment on rent pricing and related commitments to building projects it initiates on publicly owned land.
- SCC should commit to work with Housing Associations, not just commercial developers, in developing its own and other projects in Surrey.

[8] See http://www.bmj.com/content/360/bmj.k214