



OFFICER REPORT TO COUNCIL

2025/26 FINAL BUDGET AND MEDIUM-TERM FINANCIAL STRATEGY TO 2029/30

KEY ISSUE/DECISION:

The Local Government financial climate is extremely challenging. The national picture for public services is one of constrained financial resources. A number of local authorities, across the Country, are struggling to balance available funding with significantly increasing demand and cost pressures.

A strong focus on financial accountability has enabled the Council to improve its financial resilience and provides a stable financial foundation enabling the Council to be ambitious and to continue to drive improvements in our services. Despite this, the Council is experiencing the pressures felt across the country and the financial environment in which we operate requires us to make challenging decisions about the services we provide in order to ensure our financial resilience.

The Provisional Local Government Finance Settlement (LGFS) was released on the 18 December 2024, with a final settlement due in February 2025. Whilst there was additional investment announced for local authorities, specifically in relation to social care funding, substantial increases in the cost of maintaining current service provision and increased demand result in pressures increasing at a significantly higher rate than forecast funding. The Council continues to see exponential increases in demand for services, particularly within Adults and Children's Social Care and Home to School Travel Assistance, resulting in the need for further efficiencies within services and an increase in Council Tax to ensure the budget can be balanced.

The Budget announcements on the 30 October included a rise in both the National Living Wage and in Employer's National Insurance Contributions. This will increase the Council's own wage bill, as well as that of many of our suppliers, which will potentially feed through into increased costs. The direct impact on the Council's wage bill is factored into the budget proposals, along with an estimate of the compensation grant the Council will receive for the impact of National Insurance Contribution increases. There is currently an estimated shortfall in this funding of c£2m, increasing the pressures in the budget. The compensation funding was not confirmed in the Provisional LGFS and will not be confirmed until the Final Settlement in February 2025, increasing the budget planning risks.

The Provisional LGFS shows the Council's Core Spending Power, as calculated by the Government, to be a 4.9% increase (in cash terms). Of this 4.9% increase in Surrey's core spending power, the majority (over 90%) relates to an assumption of full utilisation of the council tax and adult social care precept levels, rather than additional funding from Government. The net outcome of the provisional LGFS indicates a net change to government grants for Surrey County Council of £2.9m compared to 2024/25, which does not go far enough in addressing the financial challenge local authorities continue to face.

The settlement was also a window into the future fair funding review to be undertaken by the Government. In the settlement, £600m of the newly identified £1.3bn for local government was distributed to areas with higher deprivation and with smaller level of council tax base. Surrey Councils, including the County, did not receive any of this funding under this distribution methodology.

It is vital that we continue to ensure that the County Council is in a resilient financial position, so that there is no risk of failing to deliver crucial services, either in the short or medium term. Significant efficiencies of £66.4m have been identified in the budget proposals to reduce the forecast pressure on the budget.

The final budget for 2025/26 proposes total funding of £1,264.1m; an increase of £55.7m from 2024/25. In order to achieve a balanced budget, it includes the following recommendations to full Council on Council Tax and the Adult Social Care Precept:

- 2.99% increase in Council Tax
- 2% Adult Social Care Precept

The increase in the total bill for a Band D property will equate to £1.69 per week. Decisions to increase Council Tax are not made lightly and balance the need to provide sustainable services for the most vulnerable with a recognition of the pressures on household finances, particularly with cost of living pressures.

Over recent years the Council's capital ambition and delivery has grown significantly. However, the economic environment has changed over recent years and high interest rates and significant increases in prices are making delivery of capital schemes more expensive. In order to sustain our financial resilience, a thorough review of the capital programme has been undertaken to ensure the affordability and sustainability of our capital programme in the medium term.

The Capital Programme for 2025/26 – 2029/30 proposes ongoing investment in priority areas such as highways infrastructure, improving the condition of our property estate, creating additional school places including for children with special educational needs and disabilities, the green agenda, transforming our libraries and investing in adult social care accommodation with care and support.

The Council needs to focus attention on the medium-term. It is anticipated that this period of financial challenge for the Council will persist, and without further action the budget gap is expected to continue to grow. Prospects for local government finance settlements in the next spending review period look very tight, with real-terms cuts anticipated for unprotected services, including most of local government.

The Government has confirmed its commitment to reviewing Local Government funding distribution (also referred to as the Review of Relative Needs and Resources or the Fair Funding Review). On the basis that the Government has committed to multi-year settlements and launched a spending review to conclude in 2025, Funding Reform has been modelled to take effect from 2026/27. Confirmation over the timing of the reform is crucial to planning, not least because of the anticipated reduction in overall funding. Currently, transitional arrangements are assumed to phase and mitigate the impact of the reduction expected from the funding reform. Fair Funding Reform almost certainly will have a very significant impact on the Council's future funding position as it is likely to include an expectation that the council maximises its reliance on Council Tax for funding services.

Transformation and service delivery plans are being developed now to identify opportunities to improve the medium-term financial outlook, developing a 'One-Council' approach to transformation with several cross-council programmes designed to optimise the way we work.

BACKGROUND:

1. The production of the 2025/26 budget has been developed through an integrated approach across Corporate Strategy & Policy, Design & Transformation and Finance, ensuring that revenue budgets, capital investment and transformation plans are aligned with each of the Directorate's service plans and the corporate priorities of the organisation.
2. The budget decisions and attached 2025/26 Final Budget Report and Medium-Term Financial Strategy and supporting Annexes set out the context (both internal and external), approach and assumptions underpinning the development of the budget, supporting the priorities set out in the Council's Organisation Strategy.

RECOMMENDATIONS:

Following the Cabinet Meeting on 28 January 2025, the recommendations to Council on 4 February 2025 are:

To note the following features of the revenue and capital budget, and in line with Section 25 of the Local Government Act 2003:

1. The Deputy Chief Executive & Executive Director of Resources' (Section 151 Officer) conclusion that estimates included in the Final Budget Report and Medium-Term Financial Strategy are sufficiently robust in setting the budget for 2025/26; and

2. That it is the view of the Deputy Chief Executive & Executive Director of Resources (Section 151 Officer), that the level of reserves is adequate to meet the Council's needs for 2025/26. These reserves include the following amounts, (totalling £121.4m) set aside specifically to provide financial resilience:

- the General Fund (£50.5m).
- Earmarked Reserves available to support unforeseen events and protect financial resilience (£70.9m)

Proposed budget: Cabinet recommends that County Council approve the following Revenue and Capital budget decisions:

3. The net revenue budget requirement be set at **£1,264.1 million** (net cost of services after service specific government grants) for 2025/26 (Annex B), subject to confirmation of the Final Local Government Financial Settlement.
4. The total Council Tax Funding Requirement be set at **£972.3 million** for 2025/26. This is based on a council tax increase of 4.99%, made up of an increase in the level of core council tax of 2.99% and an increase of 2% in the precept proposed by Central Government to cover the growing cost of Adult Social Care (Annex E).
5. For the purpose of section 52ZB of the Local Government Finance Act 1992, the Council formally determines that the increase in core council tax is not such as to trigger a referendum (i.e. not greater than 3%).
6. Sets the Surrey County Council precept for Band D Council Tax at £1,846.36, which represents a 4.99% uplift. This is a rise of £1.69 a week from the 2024/25 precept of £1,758.60. This includes £286.61 for the Adult Social Care precept, which has increased by £35.17. A full list of bands is as follows:

Valuation band	Core precept	ASC precept	Overall precept
A	£1,039.83	£191.07	£1,230.90
B	£1,213.13	£222.92	£1,436.05
C	£1,386.44	£254.76	£1,641.20
D	£1,559.74	£286.61	£1,846.35
E	£1,906.35	£350.30	£2,256.65
F	£2,252.96	£413.99	£2,666.95
G	£2,599.57	£477.68	£3,077.25
H	£3,119.48	£573.22	£3,692.70

7. Delegate powers to the Leader and Deputy Chief Executive & Executive Director of Resources (Section 151 Officer) to finalise budget proposals, updated to take into account new information in the Final Local Government Finance Settlement;
8. The Total Schools Budget of £738.7 million to meet the Council's statutory requirement on schools funding (as set out in Section 9 of the

2025/26 Final Budget and Medium-Term Financial Strategy to 2029/30).

9. The overall indicative Budget Envelopes for Directorates and individual services for the 2025/26 budget (Annex B) and that the Corporate Leadership Team be required to meet the revenue budget for the delivery of Council services.
10. That the Corporate Leadership Team be required to deliver the revenue saving plans as set out in Annex A.
11. The re-set of the Earmarked Reserves, as set out in Annex D.
12. The total £1,398.8 million proposed five-year Capital Programme (comprising £1,016.8 million of budget and £382.0 million pipeline) and approves the £406.3 million Capital Budget in 2025/26 (Annex C).
13. The investment in Transformation required to deliver improved outcomes and financial benefits is built into the proposed Medium-Term Financial Strategy (as set out in section 3 of 2025/26 Final Budget Report and Medium-Term Financial Strategy to 2029/30).

Capital and Investment Strategies: Cabinet recommends Council to approve the following:

14. The Capital, Investment and Treasury Management Strategy which provides an overview of how risks associated with capital expenditure, financing and treasury will be managed as well as how they contribute towards the delivery of services (Annex F).
15. The policy for making a prudent level of revenue provision for the repayment of debt - the Minimum Revenue Provision (MRP) Policy (Annex G).

SECTION 151 OFFICER COMMENTARY & SECTION 25 REPORT

3. The Council has a legal requirement to set a balanced budget. We are not permitted to allow spend to exceed available resources which would result in an overall deficit. Sections 32 and 43 of the Local Government Finance Act 1992 also require authorities to have regard to the level of reserves to meet estimated future spend when calculating the budget requirement.
4. The budget report has been drafted on the basis of this legislation, and critically the 2025/26 budget is balanced. Furthermore, it has no reliance on the use of one-off funding i.e. reserves, to fund on-going activity and has a full scheduled savings plan proposed for 2025/26 to achieve this position.
5. The enclosed report sets out a balanced budget for 2025/26. Given the level of risk and uncertainty inherent in both the local authority environment and the national economic and political environment, coupled with ongoing uncertainty over future funding levels, retention of the

Council's reserves will be essential, in order to provide financial resilience and ongoing financial sustainability.

6. Under section 25 of the Local Government Act 2003 there is a statutory duty on the Section 151 Officer to report, at the time the budget is considered and the Council Tax set, an opinion on:
 - the robustness of the estimates made for the purposes of the [budget] calculations; and
 - the adequacy of the proposed financial reserves.
7. The budget has gone through extensive iterations, with collaboration and challenge between Cabinet and the Corporate Leadership Team in the development of inflation and demand pressures as well as proposals for efficiencies. These have then been scrutinised through wide engagement with Select Committees.
8. The Council overall continues to be in a healthy financial position, especially considering the current financial challenges and outlook for the local government sector. Although there is a projected overspend in 2024/25 of £18.6m (at the month 8 position), this will be offset by the £20m budget held centrally, resulting in a contribution to reserves, provided this position is maintained by the outturn.
9. Equally this budget looks to further strengthen the financial sustainability of the authority by underpinning the £20m budget as a planned contribution to reserves to bolster financial resilience as well as the potential to fund future investment, be that on transformation, prevention or priorities.
10. This will be done with an emphasis on the delivery of the planned savings in year, and the realisation and identification that further investment will be needed to transform services to deliver efficiencies and continue to ensure a balanced budget in future years. The detail on the transformation activity and its associated funding is presented in more depth in the report and goes towards ensuring transparency around our reserves and the activity they fund.
11. The level of savings delivery, at £66.4m, is a key risk. This will be a focus within the leadership group in 2025/26, based on savings delivery plans, and will ensure oversight and delivery of the agreed plans. Critically, where this is not possible or there are variances to plan, there will be proactive early mitigation to ensure overall budgetary control, to complement the already tight financial management of budgets across the Council.
12. Although pressures of over £122m have been built into the budget, there are still risks present within these. The demand for social care in particular is ever present with the growing and ageing demographic but also the complexity of care for our vulnerable adults and children. When matched

with the sufficiency of places to meet this need, it drives market forces and the cost of placements/packages.

13. The assumptions around these pressures on demand and inflation have been built into the base budget and will continue to be reviewed to ensure assumptions remain robust and financial impacts can be reported and where necessary management action taken.
14. In terms of inflation an assumption of 3% has been used for pay and 2% for non pay related costs, however where specific evidence exists e.g. contract specific inflation, these have been taken into account. The pay award for 2025/26 will mirror the national pay award. Whilst CPI remains above the Bank of England target of 2% this represents potential future pressure and risk above those assumptions.
15. A specific risk within the budget is the impact of the employers' national insurance increases from April 2025. Whilst we have prudently assumed £6.4m in funding will be received from Government, this is still £2m short of the estimated direct cost of £8.4m. At the time of writing, it is not known what the final funding position will be from Government.
16. In addition, there will be pressure on the Council's supply chain to absorb the increase in employers' national insurance within their current cost and fees. This is the position that is being adopted heading into 2025/26.
17. It is forecast for interest rates to lower during 2025/26, however the current economic conditions and the Council's debt portfolio, whereby we are holding short term debt until rates lower, has seen higher than forecast borrowing costs. Ultimately the Council will want to secure longer term debt to match the investment made in assets and infrastructure, but current prevailing interest rates result in the holding of short term debt as the most prudent course despite the higher than expected short term rates.
18. The local government provisional settlement only provides certainty for 2025/26, but it was a stark indicator of what is likely to come in the way of any fair funding review. The funding guarantee, worth £9.1m to the council in 2024/25, was removed and no additional funding was received out of the £600m recovery grant allocation, with the distribution methodology aligning this to areas with higher deprivation and lower ability to raise funds from council tax.
19. Although not a risk in 2025/26, as effectively the budget gap has been closed by the Cabinet's proposal to raise council tax (as is expected by HM Treasury), a review of local government funding does present a significant risk. Moving forward we have assumed a reduction in government funding as a result of any fair funding review but with

transition funding lowering the immediate impact. Overall it is estimated in the MTFS that government funding will reduce by over £80m.

20. As part of the budget setting process, the levels of balances and reserves has been reviewed and determined ensuring that the level is justifiable in the context of local circumstances and risk profile. The Section 151 officer has reviewed the level in order to ensure a prudent level of balances that is commensurate with the risks that the Council faces and the context within which the authority operates.

21. Section 5.27 of the 2025/26 Final Budget and Medium-Term Financial Strategy to 2029/30 sets out Reserves and Risk Mitigation Strategy, including the level of key reserves and contingencies, **totalling £121.4m** (or 10% of the 2025/26 net revenue budget):

- General Fund (£50.5m).
- Earmarked Reserves available to support unforeseen events and provide financial resilience (£70.9m)

It should be noted that based on the assumption of the £20m contribution to reserve that the overall level and % of reserves held against risk rises to £98.9m and 12% by the end of the financial year. Should there be service spending pressures during 2025/26 which are not mitigated fully, then the contribution to reserves will be adjusted accordingly.

22. The following principles for the overall management of reserves are proposed:

- Reserves should only be used to fund one-off or time-limited investment that will drive out efficiencies, deliver the capital programme or improve the delivery of services and Council priorities;
- Reserves cannot be used as a substitute for permanent efficiencies to meet permanent spending pressures;
- Reserve contributions should be reviewed annually to ensure contributions are equal to planned use over the medium-term;
- Over the medium-term, reserves should stay flat or ideally increase – as financial uncertainty, the efficiency requirement and the investment ambition will remain high across the MTFS period. As such, the budget proposes a planned contribution to reserves of £20m to enable further funding of one-off and transformational activity and/or continue to improve overall financial resilience;
- Reserves should ideally not drop below 10% of the net budget. It is proposed to implement a 2% buffer over the 10% threshold that establishes the following three levels:
 - **Minimum** – reserves do not drop below 10% and, if they do, are rebuilt as soon as possible in the following years' budget

- **Basic** – reserves do not drop below 12% (10% + 2% buffer) and, if they do, are rebuilt to at least 12% over medium-term
 - **Enhanced** – reserves stay flat or grow, dependent on analysis of the risk environment.
- To avoid a programmed reduction in reserves, the use of reserves to support Transformation or other investment should be less in any given year than the planned budgeted contribution to reserves.
23. Significant amount of funding has been set aside to deal with anticipated or potential risks/financial shocks to the system and it is critical that the Council maintains these reserves as set out in the strategy and principles above.
24. A significant amount of one-off funding has also been set aside for investment, as detailed out within transformation, future liabilities and contractual commitments. One of the most significant risks, to which the Council holds a counter reserve balance, is around the High Needs Block of the DSG. Although the Council is in a safety valve agreement, the high needs deficit continues to rise and is forecast to stand at around £167.5m at the end of 2025/26. Despite significant recovery work, the ambitious budget reductions in the initial safety valve programme are under growing pressure as costs and demand have grown faster than envisaged. The Council is in discussions with the DfE about an extension to the Safety Valve agreement.
25. Unlike the majority of other councils in safety valve arrangements, the Council holds a significant offsetting reserve balance of £144m to provide resilience. This, taken with other reserve balances, will ensure that should the statutory override not be continued beyond March 2026 then the Council, from an accounting perspective, has sufficient reserves to offset the deficit.
26. Whilst at the time of writing the potential for Local Government Reorganisation and Devolution, following the white paper in December, is a live issue, this should not distract from the Council in delivering a balanced budget in 2025/26. The Corporate Leadership Team will ensure that focus is on maintaining service delivery and the delivery of the saving plans. There is sufficient resource put aside to react to whatever decision is made by the Government ahead of and during 2025/26.
27. It is the opinion of the Section 151 Officer that the budget proposals set out in the report for setting the 2025/26 budget have been developed through a process of review and challenge and that the level of reserves is sufficient. The financial standing of the Council is sound and continues to improve in the context of those key risks and that the proposed budget is robust and achievable.

LEGAL IMPLICATIONS – MONITORING OFFICER:

28. The Assistant Chief Executive and Executive Director of Resources is the officer designated by the Council as having the statutory responsibility set out in Chief Finance Officer (CFO) under section 151 of the Local

Government Act 1972. The CFO is responsible for the proper administration of the Council's financial affairs.

29. In order to fulfil these statutory duties and legislative requirements the CFO will:

- Set appropriate financial management standards for the Council which comply with the Council's policies and proper accounting practices and monitor compliance with them.
- Determine the accounting records to be kept by the Council.
- Ensure there is an appropriate framework of budgetary management and control.
- Monitor performance against the Council's budget and advise upon the corporate financial position.

30. The setting of the budget is a function reserved to the Full Council, but the Cabinet is required to make recommendations it wishes to make to Full Council on the various calculations the authority is required to make. Once the budget is agreed by Full Council, the Cabinet cannot make any decisions which conflict with that budget, although variations and in year changes may be made in accordance with the Council's Financial Regulations. Similarly, any decision made by the Cabinet must be made in accordance with the policies, plans and strategies agreed by Council.

31. In each financial year the Council must make its budget calculation in accordance with sections 42A and 42B of the Local Government Finance Act 1992 (LGFA). In particular, it must calculate the total of:

- The expenditure the authority estimates it will incur in the year in performing its functions and will charge to a revenue account for the year
- Such allowance as the authority estimates will be appropriate for contingencies in relation to expenditure to be charged to a revenue account for the year 2025/26
- The financial reserves which the authority estimates it will be appropriate to raise in the year for meeting its estimated future expenditure
- Such financial reserves as are sufficient to meet any estimated revenue deficit for previous financial years which has not already been provided for.

Those calculations are then used to determine the council tax requirement for the year.

32. The Council must issue any precept or precepts in accordance with section 40 of the LGFA. The section prescribes what must be included in the issue of the precept. It must be issued before 1 March in the financial year preceding the year for which it is issued but is not invalid merely because it is issued on or after that date.

33. Under the LGFA section 52ZB the council is required when setting council tax, to determine whether or not the increase is 'excessive'. The draft principles for 2025/6 published by the Secretary of State in December 2024 state that for the Council any increase of 3% or more (excluding the 'social care precept') would be defined by the Secretary of State as 'excessive'. In addition, social care authorities are permitted to levy a 'social care precept' of 2% or less. The recommendations in this report would not lead to an increase in council tax which is defined as 'excessive' or trigger the referendum principles where any increase by the Council of 5% or more.
34. Under section 25 of the Local Government Act 2003, the CFO is required to report to the authority on the robustness of the estimates made for the purposes of the calculations required to be made by the Council. These are the estimates which the Cabinet is required to determine and submit to Full Council and are contained within this report. The CFO is also required to report on the level of reserves.
35. In deciding its Capital Programme for the year, the Council must have regard to the 'Prudential Code' established by the Local Government Act 2003. This is addressed in the report.
36. The budget allocates funding to services on the basis that a number of changes to Council services which are under consideration may be made. The budget does not itself authorise any changes to services and does not assume that changes will be made. Any changes to services will need to be the subject of appropriate consideration by the Cabinet Member or the Cabinet following, where appropriate, consultation and a full report setting out options for change, the impact of the proposed changes on service users, including in particular the impact on different equality groups. Where a decision is made not to implement any changes then budgetary adjustments may need to be made but the Council is confident that whilst savings over the budget are assumed, each can be implemented in a number of ways, thus no particular changes are assumed.
37. Section 106 of the LGFA restricts any member of the Council from voting on the budget or council tax requirement if they owe any amount of council tax to any local authority which has been outstanding for more than two months. If this applies to a member and they attend a meeting at which the council tax requirement is to be set, they must declare this fact and they cannot vote. It is an offence to vote or to fail to make this declaration.

Lead/Contact Officers:

Andy Brown, Deputy Chief Executive and Executive Director of Resources
Andy.brown@surreycc.gov.uk

Sources/background papers:

- [Provisional Local Government Finance Settlement 18 December 2024](#)
- [Final Budget 2025/26 and Medium Term Financial Strategy to 2029/30 \(Cabinet 28 January 2025\)](#)
- [Organisation Strategy 2021 - 2026](#), Report to Council - 8 December 2020
- [A Community Vision for Surrey in 2030](#), Report to Council - 9 October 2018

Annexes:

- 2025/26 Final Budget and Medium-Term Financial Strategy to 2029/30
 - Annex A – Pressures and Efficiencies 2025/26 – 2029/30
 - Annex B – Detailed Revenue Budget 2025/26
 - Annex C – Capital Budget 2025/26 - 2029/30
 - Annex D – Projected Earmarked Reserves and Balances
 - Annex E – Council Tax Requirement
 - Annex F – Capital, Investment and Treasury Management Strategy 2025/26; and Annex G – Minimum Revenue Provision (MRP) Policy 2025/26
 - Annex H – Consultation Summary for 2025/26 Budget
 - Annex I – Equalities Impact Assessment for 2025/26 Budget
 - Annex J – Financial Management Code of Practice Assessment
-