



OFFICER REPORT TO COUNCIL

2022/23 Final Budget and Medium-Term Financial Strategy to 2026/27

KEY ISSUE/DECISION:

Since 2018, the Council has implemented a wholesale Transformation Programme and delivered c £240m of efficiencies, with a further far-reaching programme to be delivered across the next five years.

Through our hard work and diligent financial management, we have built a stronger financial base from which to deliver services. We have reduced our financial risk, delivered service improvement, undertaken ambitious investment and built back depleted reserves. We have continued to act responsibly with taxpayer's money; minimising increases in Council Tax whenever possible and delivering services in a more effective and efficient way, so as to provide a stable platform to invest in the county's future.

We have been able to build a financial bedrock for the Council to deal with Covid-19, along with a platform for the county's recovery. Establishing this solid base is a key achievement because it means we can focus on delivering priorities, not simply on fighting financial crisis. Our hard-won financial resilience was evidenced through the Covid-19 pandemic where our staff worked tirelessly to protect our communities and support the residents and businesses who needed us, confidently, and without fear of financial failure. Although the past two years have inevitably seen a strong focus on supporting Surrey residents throughout the Coronavirus pandemic, we have continued to deliver our other essential service responsibilities. This has created real challenges, but the Council has remained focused on its transformation plans and improving services.

Although there was a temporary reduction in expenditure on Adult Social Care packages in the early phase of the pandemic, we have seen over the past months an increased demand as well as the need to provide further financial support for Adult Social Care providers. Whilst we received a number of one-off payments from Central Government which enabled us to take only 0.5% of the 3% of the Adult Social Care Precept last year, with the increased demand and cost and the fact we are not expecting any additional financial support from Government for 2022, we have little choice but to increase our use of the precept. In the medium-term we expect to receive a percentage of the funds raised from the 1.25% National Insurance Levy but significant amounts will not be allocated until 2023/24 at the earliest and will come with substantial additional responsibilities. There remains a risk that the extra funding provided may not cover the full cost of the additional responsibilities and this is something we will be working to clarify and address with Government, other local authorities and partners.

Equally, we have seen an exponential increase in the demand for children's social services and in particular special education needs and disabilities (SEND) with the

Council spending more than the Government grant, in the region of £25m to £30m per annum. We continue to engage with Government on the adequacy of the high needs block grant but in the meantime part of the overall increase will be used to support children's services.

We are investing through our Capital Programme now, with the building of specialist facilities, to ensure that taxpayers will be protected as far as possible from future increases in the cost of children's and adult's services in the medium-term.

We have also seen a huge increase in demand for mental health services, amongst both children and adults. Factors which may increase the need for mental health support include family crisis or bereavement, loneliness, isolation and loss of a support network, financial and employment challenges; all of which are exacerbated by the impact of the pandemic. The Council has a clear strategy around investing in prevention and early intervention. Additional funding of nearly £8m (1% of the proposed Council tax increase) will be invested in mental health, including accelerating a number of projects that will prevent people either falling into a chronic condition or will reduce pressure on the medicalised solutions delivered by our Mental Health Trust.

The funding will be used for interventions that enhance or safeguard supporting and protecting factors that help people avoid becoming acutely or chronically unwell. The investment will generate match funding where possible, and be used to maintain or improve wellbeing and reduce the need for formal or acute treatment. Interventions will be designed alongside stakeholders and partners and could include, for example, investing in improved supported housing options for people with mental health problems, use of technology, peer support and expanding the immediate support available for people in a crisis, to avoid the need for longer-term interventions.

We completely recognise the financial pressure on households, particularly from inflationary costs and we do not wish to add to that pressure. However, the health and wellbeing of our residents is paramount and at least 4% of the proposed 4.99% increase will be transparently invested in supporting those vulnerable residents that access social services, SEND or are in need of support for other physical or mental health conditions. The remaining increase will support the delivery of Council priorities where services are subject to significant inflation and demand pressures.

We also continue to invest in various initiatives that support growth in our local economies including re-visioning of the high street, in community schemes through Your Fund Surrey and as well as delivering our ambitious greener future strategy that will see this county becoming net carbon zero by 2050. In addition, we continue to fund road maintenance and infrastructure improvements well in excess of the funding we receive from our Government grant and with the roads in Surrey having the highest usage outside of London, it is understandably a challenge meeting resident expectation.

It is paramount that we continue to ensure that the County Council is in a resilient financial position, which it now is, so that there is no risk of us failing to deliver the crucial services that we have responsibility for either in the short or medium term.

Our continuing ambition to deliver for Surrey residents is most evident in our £1.9bn, 5-year programme to invest in the assets and infrastructure of the county, and our commitment to delivering the Community Vision for Surrey in 2030. We have achieved a huge amount since 2018, but there is more to do with major challenges remaining on the horizon.

Local Government across the country stepped up to the challenge of Covid-19. The pandemic has had an unprecedented impact on individual wellbeing, on family resilience and on the sustainability of businesses, compounded by significant

increases to the cost of living and uncertainties in the employment market. The Final Budget reflects the Council's commitment to continue its work to drive recovery from the pandemic, enhancing its engagement with residents to understand their priorities, and to ensure that no one is left behind.

None of that is to underplay the extent of the challenging external environment in which the Council is operating. The Government's reform of Adult Social Care will deliver change in the longer-term, but the immediate pressure remains squarely on local authorities. The planned reform represents the biggest change to Adult Social Care, and the care provider market, in decades. Implementing the reforms and policy changes will come with significant impact on both the Council's resources and the wider provider market. The impact of the changes on our budget will be subject to clarification over the coming months as Government and councils prepare to implement reform.

Climate Change is a real and imminent threat that must be tackled seriously, and we have set out our ambitious plan to invest in and deliver on our commitments.

While we will continue to have conversations with Government around what we feel is fair and necessary for Surrey, we must look to the future and prepare properly for these anticipated budget impacts. A key component of our recent successes has been a determination to recognise our own agency in developing solutions, rather than accept unchallenged the impact of external factors. The Council's Transformation Programme is ongoing and continually refreshed, to maximise every opportunity to deliver better services to our residents, in the most effective and efficient way possible.

BACKGROUND:

The production of the 2022/23 budget has been developed through an integrated approach across Strategy, Transformation and Finance, ensuring that revenue budgets, capital investment and transformation plans are all aligned with each Directorate's service plans and all four of the council's corporate priorities. These are:

- Growing a sustainable economy so everyone can benefit
- Tackling health inequality
- Enabling a greener future
- Empowering communities

The overall outlook for 2022/23 is one of significant challenge, with budget envelopes in the key service areas increasing by a modest 3.7% (£37.3m) in the face of substantially higher increases in the cost of maintaining current service provision. Despite an increase in projected funding, there remain challenges in managing growth in demand (particularly in Adult Social Care and Children's Services), inflationary pressures and the ongoing impact of Covid-19 within those envelopes.

RECOMMENDATIONS:

Following the Cabinet Meeting on 25 January 2022, the recommendations to Council on 8 February 2022 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 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 2022/23; and
2. That it is the view of the Executive Director of Resources (Section 151 Officer), that the level of reserves is adequate to meet the Council's needs for 2022/23. These reserves and contingencies include the following amounts, (totalling 86.0m) set aside specifically to provide financial resilience:
 - a General Fund (£28m).
 - Specific contingencies built into the 2022/23 budget (£20m); and
 - Unused contingency brought forward from previous years (at least £38m depending on 2021/22 outturn).

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

3. The net revenue budget requirement be set at £1,042.0 million (net cost of services after service specific government grants) for 2022/23 (Annex B), subject to confirmation of the Final Local Government Financial Settlement.
4. The total Council Tax Funding Requirement be set at £829.7 million for 2022/23. This is based on a council tax increase of 4.99%, made up of an increase in the level of core council tax of 1.99% to cover core Council services, including 1% for mental health, and an increase of 3% 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 2%).
6. Sets the Surrey County Council precept for Band D Council Tax at £1,626.39, which represents a 4.99% uplift. This is a rise of £1.48 a week from the 2021/22 precept of £1,549.08. This includes £185.48 for the Adult Social Care precept, which has increased by £46.47. A full list of bands is as follows:

| Valuation Band | Core Precept | ASC Precept | Overall Precept |
|----------------|--------------|-------------|-----------------|
| A | £960.60 | £123.66 | £1,084.26 |
| B | £1,120.70 | £144.27 | £1,264.97 |
| C | £1,280.80 | £164.88 | £1,445.68 |
| D | £1,440.91 | £185.48 | £1,626.39 |
| E | £1,761.11 | £226.70 | £1,987.81 |
| F | £2,081.31 | £267.92 | £2,349.23 |
| G | £2,401.51 | £309.14 | £2,710.65 |
| H | £2,881.82 | £370.96 | £3,252.78 |

7. That the 4.99% increase in Council Tax will be deployed as follows:

- 0.99% increase to fund the increased cost of delivering services
- 3.00% increase to fund additional spend in adult and children's social care
- 1.00% increase to fund additional investment in mental health.

Across this investment, the 3% increase in Adult Social Care Precept will be directed entirely to Adult Social Care.

8. Delegate powers to the Leader and Executive Director of Resources (Section 151 Officer) to finalise budget proposals and recommendations to County Council, updated to take into account new information in the Final Local Government Finance Settlement;
9. The Total Schools Budget of £575.2 million to meet the Council's statutory requirement on schools funding (as set out in Section 9 of the 2022/23 Final Budget and Medium-Term Financial Strategy to 2026/27).
10. The overall indicative Budget Envelopes for Executive Directorates and individual services for the 2022/23 budget (Annex B).
11. The total £1,909.6 million proposed five-year Capital Programme (comprising £1,031.2m of budget and £878.4.9m pipeline) and approves the £212.1 million Capital Budget in 2022/23 (Annex C).
12. The Council's refreshed Transformation Programme (as set out in section 3 of 2022/23 Final Budget Report and Medium-Term Financial Strategy to 2026/27)
13. Note that 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 2022/23 Final Budget Report and Medium-Term Financial Strategy to 2026/27).

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

14. Approves 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. Approves the policy for making a prudent level of revenue provision for the repayment of debt (the Minimum Revenue Provision (MRP) Policy) (Annex G).

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| SECTION 151 OFFICER COMMENTARY: |
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S25 Report – Risks and Robustness of Reserves

1. 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. The Budget report has been drafted on the basis of this legislation.
2. The enclosed report sets out a balanced budget for 2022/23. Given the reduction in funding that the Council has experienced over recent years, retention of the Council's Reserves will be essential in order to mitigate risk, including future funding uncertainties.
3. Section 25 of the Local Government Act 2003 requires the Section 151 Officer to report on:
 - the robustness of the estimates made for the purposes of the [budget] calculations; and
 - the adequacy of the proposed financial reserves.
4. The Section 151 Officer confirms that the Final Budget has been based on reasonable assumptions, taking into account all material, financial and business issues and risks at the time of preparation.
5. Section 5.32 of the 2022/23 Final Budget and Medium-Term Financial Strategy to 2026/27 sets out the level of key reserves and contingencies, **totalling £86m:**
 - General Fund (£28m).
 - Specific contingencies built into the 2022/23 budget (£20m); and
 - Unused contingency brought forward from previous years (at least £38m depending on 2021/22 outturn).

6. 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.
 - Budgets such as the Transformation Fund (£10m) and Capital Feasibility Fund (£5m) should be seen as contributions to reserves, with any use drawn down from the reserve when needed.
 - 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 MTF5 period.
 - Currently, General Fund and Earmarked reserves (excluding technical balances such as PFI sinking funds) stand at approximately £150m / 15% of the net revenue budget, which consists of the contingencies outlined above and a number of other earmarked reserves.
 - Reserves should not drop below 10% of budget. This aligns with a recommendation from Grant Thornton that reserves should be between 5% and 10% of the net revenue budget. (Source Grant Thornton: Lessons from recent Public Interest Reports 2021)
 - It is proposed to implement a 2% buffer over the 10% threshold, with remedial action taken if reserves are used for unforeseen financial shocks. This would establish the following three levels:
 - **Enhanced** – reserves stay flat or grow from the current c15%
 - **Basic** – reserves do not drop below 12% (10% + 2% buffer) and, if they do, are rebuilt to at least 12% over medium-term
 - **Minimum** – reserves do not drop below 10% and, if they do, are rebuilt as soon as possible in the following years' budget
 - 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 budget contingency.

7. Section 3 of the 2022/23 Final Budget and Medium-Term Financial Strategy to 2026/27 sets out the level of Transformation investment planned in 2022/23. It is proposed to transfer £15m from the Budget Equalisation Reserve into the Transformation Reserve which coupled with the £10m in-year allocation will provide an adequate starting level, and then to manage the draw-down over the course of the year through Transformation governance process.

Lead/Contact Officers:

Leigh Whitehouse, Deputy Chief Executive and Executive Director of Resources

Joanna Killian, Chief Executive

Sources/background papers:

- [2022/23 Final Budget and Medium-Term Strategy to 2026/27](#), Report to Cabinet: 26 January 2021
- [Organisation Strategy 2021 - 2026](#), Report to Council: 8 December 2020
- [A Community Vision for Surrey in 2030](#), Report to Council: 9 October 2018
- [Provisional Local Government Finance Settlement 16 December 2021](#)

Annexes:

2022/23 Final Budget and Medium-Term Financial Strategy to 2026/27

Annex A – Pressures and Efficiencies 2022/23

Annex B – Detailed Revenue Budget 2022/23

Annex C – Capital Budget 2022/23-2026/27

Annex D – Projected Earmarked Reserves and Balances

Annex E – Council Tax Requirement

Annex F and G – Capital, Investment and Treasury Management Strategy 2022/23; Minimum Revenue Provision (MRP) Policy 2022/23

Annex H – Consultation Summary for 2022/23 Budget

Annex I – Equalities Impact Assessment for 2022/23 Budget

Annex J – Financial Management Code of Practice Assessment
