

**Final Budget  
Report 2023/24,  
and Medium-Term  
Financial Strategy  
to 2027/28**

# 1. EXECUTIVE SUMMARY

## Delivering priorities, ensuring *no one is left behind*

- 1.1 This Council is determined that the Community Vision for Surrey 2030 continues to be delivered to ensure the county is a uniquely special place where everyone has a great start to life, people live healthy and fulfilling lives, are enabled to achieve their full potential and contribute to their community, and where no one is left behind.
- 1.2 Our Organisation Strategy sets out our contribution to the 2030 Vision. Within it, the Council's four priority objectives and guiding principal that *no one is left behind* remain the central areas of focus as we deliver high-quality and sustainable services for all.



- 1.3 The purpose of the Budget and Medium-Term Financial Strategy is to set out how the Council will use its funding to deliver its priority objectives and core services. These priority objectives sit at the core of the budget process, leading our approach to allocating resources and developing investment plans.
- 1.4 The Council's purpose and approach to improving the lives of residents across the four priority objectives, as well as ensuring that no one is left behind, is set out in The Surrey Way (section 2) and reflected throughout this budget report.



- 1.5 The period covered in the report, represents a challenging time for the Council’s finances with inherent uncertainty in the planning process and significant pressures identified in relation to both the high levels of inflation being experienced nationally and ongoing forecast increases in demand for key services. The Local Government Finance Settlement provided some much needed additional funding for local authorities, specifically in relation to social care, however the medium term outlook for public finances remains extremely challenging. It is therefore even more important that the Council continues to direct its resources using the most efficient means possible towards achieving its purpose and priorities, while ensuring that core services are delivered to residents.

## **Developing the Draft Budget and Medium-Term Financial Strategy**

- 1.6 The 2023/24 Budget Report and Medium-Term Financial Strategy to 2027/28 delivers a balanced budget for 2023/24 and outlines the continuation of ambitious, sustainable and resilient medium-term financial plans, balanced alongside an uncertain political and economic national environment.
- 1.7 The Council has worked hard over recent years to improve its financial resilience and the financial management capabilities across the organisation. From this strengthened position we have been able to be ambitious in our outlook and look to continue to drive improvements and investment in our services, as well as enabling us to manage challenges and uncertainties, as evidenced throughout the pandemic. This stability will not necessarily allow us to avoid difficult decisions, but it will allow us the time and space to make them in a considered and measured way, underpinned by an earned confidence in our ability to deliver.
- 1.8 However, we recognise that this financial year and the next 2-3 are likely to represent an extremely challenging period and our focus will need to be on protecting service delivery in the first instance, not retreating, but being realistic about our ambitions whilst we manage the challenges ahead. We need to focus on the medium term as well as the delivery of significant efficiencies required each year in order to deliver a balanced budget position. We are however confident that our improved financial position and focus on budget accountability provides a solid foundation for us to achieve this and that we will be able to continue to deliver the Council’s priorities.
- 1.9 As in previous years, the production of the 2023/24 budget has been developed through an integrated approach across Strategy, Transformation and Finance, based around ‘Core Planning Assumptions’ which set out likely changes to the environment in which we deliver our services. The integrated approach ensures that revenue budgets, capital investment and transformation plans are aligned with each Directorate’s service plans and the Corporate Priorities of the organisation. Ensuring that each aspect of planning for 2023/24 and the medium-term are completely aligned provides a stable foundation for delivering services to Surrey residents in the face of challenges presented by the cost of living crisis, the medium term ongoing impacts of the Covid-19 pandemic and wider local government policy pressures.

## **The financial outlook**

- 1.10 The Provisional Local Government Finance Settlement (LGFS) was released on the 19<sup>th</sup> December, with a final settlement due in January 2023. The funding announced was better than previously

anticipated for Local Authorities, specifically in relation to additional funding for Adults Social Care, but demand and inflation pressures remain significant and while the additional funding is welcomed it does not mitigate the significant financial challenges which local authorities continue to face. Local Government funding over the medium term remains highly uncertain, with a number of factors likely to result in significant changes to our funding position (the key factors are set out in section 5 and 8 of this report).

- 1.11 The LGFS was published on a one-year basis, with some indications of methodology for 2024/25 but little certainty of funding beyond that. The additional funding announced as part of the LGFS represents a c8.3% increase in Surrey's core spending power (although it is important to note that this assumes full utilisation of the council tax and adults social care precept levels). Whilst the wider inflation rate has been c10% throughout 2022/23 and is estimated to be c7% in 2023/24.
- 1.12 The overall outlook for 2023/24 is one of significant challenge, in the face of substantial increases in the cost of maintaining current service provision and increased demand. Despite an increase in the projected levels of funding, pressures anticipated for 2023/24 are significantly higher than in recent financial years. These pressures relate to a number of factors occurring simultaneously, namely high levels of inflation, Europe's energy crisis, workforce and labour shortages, high interest rates and the ongoing impact of the pandemic. The Council continues to see large increase in demand for services, particularly within Adults and Childrens' social care and the impact of the cost of living crisis on residents is expected to further increase demand for key services. In addition, the projected cost of implementing the Government's Adult Social Care Reform proposals is anticipated to put significant financial pressures of the Council over the medium term, well in excess of the funding being made available. The recent announcement to delay the implementation of these reforms reduced the immediate pressures, but material uncertainty remains over the medium term.
- 1.13 While the financial environment is very challenging, the Council has established a strong track record in recent years of delivering efficiencies and transformation and taking our financial management responsibilities very seriously. The Finance Improvement Programme, implemented in 2018, enabled the Council to strengthen its financial resilience and financial management capabilities before the impact of Covid was felt. This enabled the Council to approach the pandemic in a way that prioritised our residents.
- 1.14 The final budget for 2023/24 proposes total funding of £1,101.5m; an increase of £61.4m from 2022/23. In order to achieve a balanced position, the budget includes the following recommendations to full Council on Council Tax and the Adults Social Care Precept:
- 0.99% increase in Council Tax
  - 2% increase in the Adults Social Care Precept
- The increase in the total bill for a Band D property will equate to £0.94p 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 during the current cost of living crisis. The budget avoids raising the core Council Tax level by the maximum 3% assumed by Government.

1.15 The gap is expected to continue to grow over the medium term, based on current projections, to the order of £224m. The Council recognises that tackling this gap will require a medium-term focus and a fundamentally different approach. We are focusing not only on 2023/24, but simultaneously looking to address the medium-term horizon. Cross-cutting Directorate transformation opportunities contribute to the efficiencies already identified in this Budget and work continues to identify additional areas of focus, including a planned organisational review.

## Engagement

1.16 In 2021, we carried out in-depth research with residents to understand their priorities for how the council should spend its money. Residents indicated that they were willing to accept increases in Council Tax and the Adult Social Care Precept if it was for the purpose of protecting services that work with some of the most vulnerable people in Surrey. These views were largely in line with the results of the 2022 budget consultation. The engagement demonstrated that resident priorities align with those of the council, with top priorities for residents including Social Care for people of all ages, Waste services and Fire and Rescue. There was also support for more investment in preventative services and for placing those residents most at risk of being left behind in Surrey at the heart of decision-making. Residents wanted a more active role in what happens in their localities.

1.17 These results continue to provide a robust foundation from which to shape budget decision-making and, in 2022, have been complemented by a lighter touch approach to engagement. In May 2022, we held three virtual focus groups exploring themes including factors that make a good place to live and what local area improvements residents would like to see irrespective of who is responsible for their delivery. The groups also discussed services particularly important to resident households and in need of more support from Surrey County Council. They highlighted:

- Making sure people get access to the services they need
- Helping people cope with the rising cost of living
- Community safety / managing crime / anti-social behaviour

1.18 Additionally, in August 2022, a cost of living survey was asked of the Surrey Health and Wellbeing Panel which looked at areas including the challenges they have faced in the previous three months (1 May – 31 July) and if they had had to alter their behaviours. A strong theme of cost of living worries also came through in the budget consultation launched in November 2022 and this, combined with the results of the cost of living survey being repeated in early 2023, will help inform the councils approach to supporting residents, business and the voluntary sector through the rising cost of living.

1.19 The key findings from the August 2022 survey show that while the majority of Surrey residents are not in crisis situations, they are beginning to make cutbacks. It is important to note that some residents are in crisis already and that circumstances are likely to change through the winter.

1.20 To build on the engagement exercise done in 2021, and the ongoing research taking place through 2022, an open budget consultation survey was launched in November 2022 seeking views from residents and partners across Surrey on the Draft Budget. Although the response rate was low, the consultation allowed residents and stakeholders to comment on the proposed budget and findings were largely in line with the outcomes of the 2021 engagement exercise.

1.21 Impacts of budget proposals, both positive and negative, are considered by services in a variety of ways, including through services' own consultation and engagement exercises and the use of Equality Impact Assessments (EIAs). EIAs are used to guide budget decisions and are outlined below in Section 11.

## Key Elements of this Report and next steps

1.22 The key elements of this report include:

- The Council's Strategic Framework (Section 2);
- An update on our Cross Cutting Transformation approach (Section 3);
- Directorate Service Strategies aligned to both of the above (Section 4);
- The Financial Strategy for 2023/24 (Section 5);
- The five-year Capital Programme, setting out the Council's ambitious plans to invest in Surrey's infrastructure, economy and create a greener future (Section 6);
- 2022/23 Financial Performance – revenue and capital (Section 7);
- The Medium-Term financial outlook to 2027/28 (Section 8);
- The Schools Budget (Section 9)
- Our approach to engagement and consultation (Section 10); and
- Budget Equality Impact Assessment (Section 11) summarising key messages from an equality analysis for the budget, including commentary on the impact of Council Tax increases.

1.23 The final 2023/24 Budget and Medium-Term Financial Strategy to 2027/28 will be presented to Council for approval on the 7<sup>th</sup> February 2023.

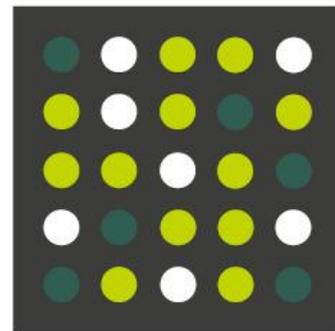
## 2. THE SURREY WAY: A HIGH PERFORMING COUNCIL, ENSURING THAT NO ONE IS LEFT BEHIND



OUR PURPOSE



OUR ORGANISATION



OUR PEOPLE

2.1 The Community Vision for Surrey 2030, which was created with residents, communities and partners on behalf of the whole county, sets out how we all want Surrey to be by 2030. Together, we are all working to deliver a uniquely special place where everyone has a great start to life, people live healthy and fulfilling lives, are enabled to achieve their full potential and contribute to their community, and where *no one is left behind*. The Council plays a big part in the joint effort to realise this vision.



- 2.2 Our purpose as a council is to tackle inequality and make sure that no one is left behind; reinforcing the aims of the Community Vision for Surrey 2030. It is our responsibility as a council to support those in need and deliver everyday improvements to residents in all walks of life.
- 2.3 We focus on a small number of organisational priorities that will let us create the conditions for Surrey to thrive. Our Organisation Strategy (2023-28), sets out four priority objectives which reflect where we think we can have the greatest impact on tackling inequality and improving outcomes for people living and working in the county:
- 2.4 Providing excellent services is the bedrock of what we do as a council; underpinning our success in delivering against the four priority objectives. Core services aim to support people to live independently and well in their communities, ensure children and families reach their full potential, protect Surrey’s residents and businesses, and take care of Surrey’s environment and highways.
- 2.5 We also want to go beyond what we’re required to do, to be a truly outstanding council. We are playing a wider strategic role in ensuring Surrey is ready to engage the big challenges and opportunities now and in the future. By working collaboratively across the county to mobilise around these key emergent issues, the lives of Surrey residents are improved, demand on services is reduced, and better outcomes and opportunities for Surrey residents are achieved.
- 2.6 To achieve excellence in services and ensure Surrey can meet our priority objectives, we are transforming how our organisation operates and the culture and behaviours our people embody. Outcomes within this transformation will enable us to plan our activities and measure progress in each of the four priority objectives. Progress here will help the council become more resilient, add more value, make greater impact, and reduce demand on services as residents become more empowered and resilient.

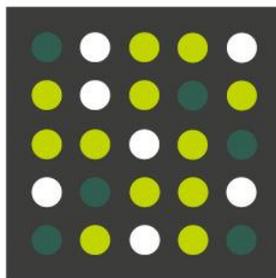
2.7 In order to achieve our purpose, this transformation around how **Our Organisation** operates has four principles which guide us:



OUR ORGANISATION

- We organise ourselves around outcomes and make it easy for others across Surrey to collaborate with us.
- We help people and communities to help themselves and devolve decisions and service design as close to them as we can.
- We maximise the potential of digital and data to transform the way we work and improve accessibility.
- We seek out preventative, commercial and efficient approaches to help us be financially sustainable.

2.8 To support our purpose, the transformation around the culture and behaviours **Our People** embody also has four commitments about how we work:



OUR PEOPLE

- An inclusive and compassionate place where we value diversity and can be ourselves at work.
- A collaborative and inviting place where we are open, trust each other, and work as one.
- An ambitious and outcomes-focused place where we are passionate about our purpose and take accountability for delivering great results.
- An inventive and dynamic place where we promote a learning mindset and adapt to new insights and opportunities.

2.9 Key to this new strategic framework and contributing to the 2030 Vision will be a commitment to monitor how we make decisions, operate, and perform against these principles and commitments. This will include measurement of performance on priority objectives, core service delivery, and organisational effectiveness, and will directly inform primary council functions like the budget process.

2.10 As part of our efforts to be transparent in our performance, the Organisation Strategy has been updated for the period 2023-2028 to accurately represent our approach for the five years ahead. This update includes refreshed analysis of our operating context, the inclusion of language around newly adopted 'The Surrey Way', and a progress update with recent highlighted achievements. Going forward, all other council strategies will more obviously link into the objectives set through the four priority objectives, service excellence, and ensuring an effective organisation.

### 3. CROSS CUTTING TRANSFORMATION

3.1 In 2021, we recognised there was a need for a new approach to delivering financial efficiencies and ways of working to support a balanced Medium-Term Financial Strategy. This approach needed to be rooted in the outcomes we were seeking for Surrey's residents and businesses and enable a financially sustainable footing over the medium-term.

- 3.2 This approach focuses on embracing cross-cutting transformation (previously referred to as the 'Twin Track' approach to 22/23 budget setting) and emphasised the need for services across the organisation to work together on the design and development of initiatives to improve outcomes and reduce costs. It aims to move beyond the limitations of Directorates developing efficiencies in isolation, with a focus on medium-long term financial sustainability.
- 3.3 Collaboration across Directorates, and with residents, businesses and other partners is essential to supporting council priorities and facilitating greater innovation and challenging existing ways of delivering services and budget setting.
- 3.4 £21m of cross-cutting efficiencies have been identified to help close the budget gap in 2023/24, with a total of £55m across the MTFs period (plus an additional £7.5m of cost containment). A number of these initiatives will transition into the council's transformation programme as they enter the delivery phase. These efficiencies look differently at, and stretch our ambitions for, how we make use of our collective financial resources. Strategies for identifying these efficiencies include:
- Focusing on improving and streamlining demand-led services and externally facing delivery, products and processes whether wholly by us or with partners and other stakeholders.
  - Implementing better ways of managing our budgets for commissioning, contracts, procurement, and grants.
  - Optimising our income and funding levels through being a more commercial organisation and working more closely with our Districts and Boroughs.
  - Identifying and exploiting successful operating models for support services, co-production and multi-disciplinary teams to fulfil the potential of our workforce strategy.
- 3.5 Executive Directors have led the shaping of these opportunities through a new leadership model, embracing a thematic approach to change. This model removes the directorate silos to change and provides strategic support and challenge to officers leading on cross-cutting projects and programmes in a collaborative space. It enables peer expertise to help shape the scope and ambition of work and supports unblocking and connections to be made with other organisations and partners to make the work go further.
- 3.6 In addition to designing projects and programmes to help inform the future shape of transformation work at the council, work has also been delivered to generate insight to identify further opportunities for efficiencies. These include building a comprehensive view of our spend to determine whether the right proportion of our budget is invested in preventing health and wellbeing issues for residents and avoiding the need for them to access statutory services, and modelling future demand for Adult and Children's Social Care and identifying interventions that could make the largest impact in reducing this demand.
- 3.7 We are already looking ahead to opportunities to inform efficiencies for 2024/25 and beyond. Aligned to the focus areas set out in paragraph 3.4, further business cases will be developed and, where needed, other insight work will be commissioned to identify further opportunities. Where there is scope to do so, we will also seek to deliver additional efficiencies in-year for 2023/24 over

and above the £30m already identified.

- 3.8 The programme is implementing a learning framework as part of this approach to cross-cutting efficiencies that gathers and analyses information from teams on what is supporting and what is hindering change while developing their proposals and business cases. The leadership model for example is piloting an independent peer review mechanism during early design stages and business case development in cultivating innovative thinking and solutions. The programme, and its findings identified through the learning framework, will support, and ultimately make up, part of the future model for design and change across the council.

## Transformation Programme

- 3.9 The progress the Council has made in recent years has been underpinned by an ambitious and effective approach to transformation. Since its inception in 2018/19 the Transformation Programme has improved vital services for residents, introduced innovative new service models, built capacity and competency, and made a significant contribution to stabilising the Council's finances. This will include achieving c£90m of ongoing efficiencies by the end of 2022/23 and containing costs in areas of growing demand.
- 3.10 Governance and reporting arrangements are well established with visibility and ownership at senior levels including Cabinet Members and Corporate Leadership Team (CLT); this includes the Transformation Assurance Board which is chaired by the Leader and has several Cabinet Portfolio Holders as standing members of the board.
- 3.11 Moving forward the transformation programme will be integrated with the cross-cutting transformation agenda, set out above, and the governance and reporting arrangements in place will support the delivery of this integrated programme. In addition to the cross-cutting efficiencies set out above, the continuation of existing transformation programmes will also deliver a range of financial benefits, with a total of £3.3m efficiencies included in the draft budget for 2023/24 and a total of £8.1m<sup>1</sup> identified through to 2027/28.
- 3.12 The transformation programme is not just about delivering financial benefits. The broad range of initiatives in 2023/24 will continue to drive service quality and performance benefits that will directly contribute to better outcomes for our residents, services users and businesses in the County.
- 3.13 Any large scale and dynamic change programme must continue to flex and adapt if it is to meet strategic objectives in an ever-changing operating environment. We therefore review and refresh the Transformation Programme regularly, ensuring we continue to build on and improve what we do for our residents.
- 3.14 The transformation programme for 2023/24 is evolving and will look significantly different from previous years. This is due to the completion, or transition to business as usual of twenty existing programmes. This will lead to a more strategic and focussed portfolio of change for next year. In addition to existing programmes there are also a number of pipeline (or emerging) initiatives that are expected to become future transformation programmes when the business cases have been developed and approved.

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<sup>1</sup> This figure is expected to rise as opportunities are further developed and business cases approved

3.15 The Transformation Support Unit (TSU) works closely with key stakeholders across the organisation to develop and refine requests for investment, ensuring business cases are developed, benefits defined and therefore investment is made in programmes that will enable us to continue to focus on our strategic priorities, improve service quality and performance. The cost of the internal transformation capacity is included in the revenue budget on an ongoing basis. In addition, there is £8m available annually to contribute to one off transformation investment.

3.16 Categorisation of change programmes has been further developed through the Transformation Assurance Board in conjunction with the Leader, and has led to a revised categorisation approach which recognises that not all change programmes have the same level of complexity and risk:

- True Transformation Programmes - Big strategic initiatives, with senior and political support. Driving fundamental change to operating models and/or service delivery that lead to significant measurable outcomes and benefits in the medium term.
- Service Improvement & Change - Continuous improvement and the implementation or embedding of new service models that lead to tangible performance and quality impacts that will be noticeable to service users.
- Strategic Priorities - linked to the Council’s overarching organisational priorities.

The proposed portfolio of change for 2023/24 is set out below with the programmes listed under the three categories:

| True Transformation Programmes   | Service Improvement Programmes   | Corporate Priorities  |
|--|--|---|
| <ol style="list-style-type: none"> <li>1. Children Social Care Transformation</li> <li>2. People Strategy (workforce of the Future)</li> <li>3. Hospital Discharge (ASC)</li> <li>4. Data Strategy programme</li> <li>5. Health &amp; Care integration - Integrated commissioning</li> <li>6. Enabling you with Technology (ASC)</li> <li>7. Libraries &amp; Cultural Services Transformation</li> <li>8. Property Technology</li> </ol> | <ol style="list-style-type: none"> <li>1. Health &amp; Care integration – palliative end of life care</li> <li>2. Preparation for Adulthood</li> <li>3. Placement Value &amp; Outcomes</li> <li>4. Business Operations transformation</li> <li>5. Resources Directorate Improvement Programme</li> <li>6. Indigo (Facilities Management)</li> <li>7. Single view of a child</li> </ol> | <ol style="list-style-type: none"> <li>1. Economic Growth</li> <li>2. Empowered &amp; Thriving Communities</li> <li>3. Public Service Reform (PSR)</li> <li>4. Greener Futures</li> </ol> |

3.17 Funding will be invested in initiatives that clearly demonstrate the achievement of improved outcomes, this may entail the use of funding on programmes that do not have financial efficiencies associated with them and therefore the return on investment will be based on non-financial benefits for example, improved independence, faster response times and better coordinated and joined up service provision.

## 4. SERVICE STRATEGIES

### ADULT SOCIAL CARE

#### Context

4.1 Adult Social Care’s (ASC) vision is to **promote people’s independence and wellbeing**, through personalised care and support that focuses upon their strengths, the outcomes they want to achieve and enables choice and control.

- 4.2 ASC provides advice and information, assessment, care and support services for people aged 18+ with Physical and Sensory Disabilities, Learning Disabilities and Autism, Mental Health needs and for frail Older People.
- 4.3 ASC operates in an incredibly challenging environment with reductions in government funding; an ageing population with increasing acuity of care needs and growing numbers of young people moving into adulthood who need services; an increasingly fragile care market; and radical changes in national policy. This is in all the context of the ongoing impacts of the Covid-19 pandemic and the cost of living crisis which are having profound effects on Surrey's residents who have ASC needs, along with their families and carers, social care providers, third sector support organisations, the health system and other key partners.
- 4.4 ASC has **four strategic priorities**:
- Improving mental health services across the whole system.
  - Delivering new accommodation with care and support models.
  - Implementing ASC charging and fair cost of care reforms and CQC assurance framework.
  - Integrating commissioning and delivery across health and care at place.
- 4.5 These priorities are underpinned by **four system enablers**:
- Culture change including embedding strengths-based practice across the whole health & social care system.
  - Maximising the benefits of digital and technology, both in managing interactions with residents and operational processes, as well as in supporting the delivery of care and support services.
  - Managing expenditure within available budget resources.
  - Ensuring there is a sustainable ASC workforce, recognising that SCC will need to increase its workforce to effectively manage the ASC charging reforms.
- 4.6 The Council is committed to integrating health and social care in Surrey to improve outcomes for residents. A key focus of this is enhancing preventative services in the community. This is challenging to achieve though in the context of the NHS' relentless national focus on reactive services in the acute hospital system and the pressures facing social care providers and community based voluntary sector organisations, all set against a backdrop increasing demand and growing acuity and complexity of care needs. Collective investment across all of these components is required – fixing one component is not enough.

### Current 2022/23 budget position

- 4.7 At month 8 ASC is forecasting an overspend of £3.9m against a budget of £403.3m so equivalent to a pressure of 1.0%.
- 4.8 Care package spending has risen considerably above the planned budget for 2022/23, driven by the ongoing impacts of the Covid-19 pandemic, the unwinding of national funding for Discharge to Assess (D2A) from hospitals, market pricing pressures accentuated by the wider economic turmoil, increased demand for care and rising ASC assessed charging debt driven in part by the cost of living crisis. An overspend of £15.8m is currently forecast against the 2022/23 care package budget across all client groups.

- 4.9 The significant pressure in 2022/23 on care package spending is being partially mitigated by a range of largely one-off factors including temporary staffing budget underspends, additional one-off income or funding and some accrued liabilities that it is considered likely will not now need to be paid. These one-off in-year mitigations cannot however be sustained on an ongoing basis.
- 4.10 At month 8, the full year net care package commitments are £20.4m higher than the 2022/23 budget assumption. The 2023/24 Final Budget assumes that this pressure can be reduced to £18.2m on a full year basis through delivery of efficiencies and other mitigations in the remainder of the year. Achieving this reduction in spending commitments will be challenging.

## Financial pressures

- 4.11 ASC's Final Budget position includes £56.9m of pressures in 2023/24 and £216.5m across the MTFS period. These pressures relate to:
- Price inflation for care packages, wider contracts and grants of £29.8m in 2023/24 and £111.2m across the MTFS. This is the biggest budgeted pressure for ASC. Budgeted inflationary uplifts in 2023/24 take account of the expected increase to the National Living Wage and wider inflationary pressures. It is assumed that inflation will reduce to lower levels from 2024/25.
  - The latest estimated mid-point funding gap for the ASC charging reforms of £14m in 2025/26 rising to £33m in 2026/27 based on the delayed implementation date of October 2025. (see paragraphs 4.18 – 4.20 below).
  - Increased demand for care packages across all client groups of £6.5m in 2023/24 and £35.6m across the MTFS, including young people who will transition from children's services.
  - A budgeted carry forward care package pressure from 2022/23 of £18.2m. As set out above, this is reliant on the achievement of planned actions to reduce the full year impact.
  - Pressures of £5.2m in 2023/24 related to the impact on SCC of pressures related to Surrey's Discharge to Assess (D2A) model from Surrey's hospitals. Hospital discharge has also contributed to the 2022/23 care package pressure above. It is important to note that were D2A to cease, cost pressures would likely increase as the system would revert to assessing people in hospital beds which often leads to over-prescribing of long-term care services.
  - Pay inflation and other staffing related pressures of £8.7m in 2023/24 and £18.5m across the MTFS.
  - Expected additional costs associated with the planned implementation of Liberty Protection Safeguards (LPS) regulations by government, replacing the current Deprivation of Liberty Safeguards regulations. The timing of the new regulations is currently unclear. The Final Budget assumptions are pressures of £7.2m from 2024/25 – 2025/26.
  - ASC's share of the cost of estimated increased demand for community equipment of £1m in 2023/24 and £2.6m across the MTFS period.
  - Budgeted increased Better Care Fund income for ASC of £3.1m in 2023/24.
  - New ASC Market Sustainability and Improvement Fund grant funding of £9.4m in 2023/24 and a further £4.7m in 2024/25 which will help towards price and demand pressures in future years.

- New ASC Discharge grant funding of £1.6m in 2023/24 support hospital discharge. This funding has to be pooled in Surrey's Better Care Fund alongside discharge funding allocated to Surrey's Integrated Care Boards.
- The end of Surrey's £1.6m former Independent Living Fund grant in ASC's budget as this funding stream is being incorporated into SCC's Social Care grant funding which is held centrally in SCC's budget.

## Financial efficiencies

4.12 ASC's Final Budget position includes efficiencies of £19.2m in 2023/24 and £51.2m over the MTFS. This covers a challenging set of efficiency plans designed to mitigate cost pressures or increase income without adversely affecting service delivery to residents. Efficiencies include:

- Strength based practice and demand management efficiencies of £3.1m in 2023/24 and £15.3m across the MTFS, including redesigning ASC's "front door," maximising digital opportunities, enhancing strength based across Surrey's D2A model and strength based reviews of people's existing care packages.
- £1.3m in 2023/24 and £5m across the MTFS driven by moving away from institutionalised models of care to promote people's independence. This includes remodelling learning disability and autism day support services and associated transport, supporting people with a learning disability and/or autism to move from residential care to supported independent living and the expansion of extra care housing, primarily for older people.
- Efficiencies of £2.7m in 2023/24 and £9.6m across the MTFS, relating to the effective purchasing of older people nursing and residential placements, home based services across all client groups, maximising occupancy of block contract residential care beds and ensuring costs of care for people with learning disability and/or autism who are over 65 are appropriate in line with changes to their behaviours and needs.
- Efficiencies of £9.5m in 2023/24 and £13.5m across the MTFS associated with changes to ASC in-house services, including the decision taken by Cabinet in February 2022 to close 8 older people residential care homes and planned efficiencies relating to in-house provided learning disability and reablement services.
- Ensuring ASC receives appropriate funding from the NHS under the Continuing Health Care (CHC) and Section 117 (S117) Aftercare policy frameworks. Continued work in this area is expected to generate efficiencies above the current baselines of £2.1m in 2023/24 and £5.5m across the MTFS.
- Contract management and maximising income efficiencies of £0.6m in 2023/24 and £2.4m across the MTFS.

## Capital programme

4.13 ASC has a small capital budget of £1.6m per year managed directly by the service. This largely relates to the capitalisation of community equipment.

4.14 ASC's Accommodation with Care & Support programme is developed alongside the Land & Property Service and involves capital investment across the following areas:

- The development by 2028 of 725 new units of affordable Extra Care Housing (ECH), primarily to support older people with care needs. It is expected that ECH schemes will generally be

developed on existing sites and developed on a Design, Build, Finance and Operate basis with tender processes undertaken to secure strategic housing partners to develop and manage the sites, limiting the requirement for direct capital investment by the council. To date expenditure of up £20.8m for the first six DBFO sites has been approved in the capital budget along with £3m of feasibility funding to confirm which further SCC owned sites would be suitable for ECH developments so these business cases can be brought forward for Cabinet approval.

- The creation of 500 new units of Supported Independent Living (SIL) for people with a learning disability and/or autism by 2030. These units will be secured through a combination of de-registration and conversion of existing residential care homes operated by independent sector providers, providers developing new SIL services and the development of new SIL accommodation on existing sites. The capital budget includes £31m relating to 3 specific developments and a multi-use community hub including SIL accommodation, which have already been approved.
- The potential development of specialist short breaks respite accommodation for people with LD&A needs to fill a significant gap in provision.
- The potential development of specialist accommodation for people with mental health needs, which would be focused on either supporting people to recover from a mental health episode or a place to call home to enable people to manage their mental health and develop greater independence in the long term.

## Horizon scanning

4.15 The ASC system both nationally and in Surrey is under incredible strain. The pandemic added to the already huge demand and cost pressures facing the sector and its increasingly fragile care markets. There is a workforce crisis with an estimated 165,000 social work vacancies nationally<sup>2</sup> and while the ASC charging reforms, due to come into effect from October 2023, will benefit individuals, primarily those people who currently self-fund their own care, they will not address the acute challenges already facing the sector.

4.16 Since 2018, ASC has embarked on an ambitious transformation programme, focused on enhancing and embedding strength-based practice, promoting people's independence and wellbeing and shifting away from institutionalised models of care. As well as improving service delivery, this has delivered clear financial benefits and enabled significant cost containment with the Council's spending on ASC increasing at a lower rate than other comparable authorities.

4.17 There remain opportunities to improve service delivery and achieve further efficiencies which are reflected above. However, the scale of efficiencies and cost control measures that are achievable without reducing the service offer to residents is diminishing. Increases in ASC expenditure are required year on year to meet demand and cost pressures and maintain market sustainability, as well as to enable effective implementation of the ASC charging reforms. The Council will continue to robustly engage with government about the funding required for ASC, but if adequate funding is not provided by government, then then this will require very difficult decisions to be made about how to sustainably fund ASC going forwards.

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<sup>2</sup> [Skills for Care's 2022 report](#)

## Adult Social Care (ASC) Reforms

- 4.18 The 2023-28 Medium Term Financial Strategy is being prepared against the backdrop of the most significant reforms to the ASC system in decades. The financial implications of these reforms are significant and the inadequacy and allocation mechanism of funding available to local authorities to support these changes remains unresolved.
- 4.19 The planned reforms included far reaching changes to the ASC charging system from October 2023. However, the Chancellor announced on 17<sup>th</sup> December 2022 that implementation would be delayed by two years to October 2025. The reforms include the introduction of a lifetime cap on the amount people are eligible to contribute to their costs, an increase in the upper and lower capital threshold limits that determine when people qualify for local authority funding, changes to the rules for “top-ups” and an extension of the criteria which enables people to request local authorities to commission services on their behalf. In addition, the fair cost of care policy agenda seeks to ensure fees paid by local authorities are sufficient to maintain market sustainability in the context of these reforms and a new assurance framework is also due to come into effect, against which the Care Quality Commission will inspect performance. The Final Budget contains pressures of £14m in 2025/26, rising to £33m in 2026/27, based on the mid-point of the latest estimated funding gap between anticipated cost increases to the council and indications of available funding and mechanisms for distribution.
- 4.20 While the Council supports the reforms overall and the benefits it will provide in terms of limiting the cost to individuals of funding their own care, these reforms do not address the underlying problems and underfunding of the current ASC system. The announcement to delay the implementation of these reforms and target the available funding at existing service pressures is therefore welcome.

## PUBLIC SERVICE REFORM AND PUBLIC HEALTH

### Context

- 4.21 The Public Health (PH) service improves and protects the health and wellbeing of people living and working in Surrey. It achieves this by:
- Providing public health intelligence and evidence to enable decisions based on people’s need and what is effective.
  - Providing specialist public health expertise and advice to NHS commissioners to support them in improving the health of their population through prevention and through effective commissioning
  - Improving health through partnership working, policy development, behaviour change and the commissioning of health improvement services for all ages which are targeted to those at risk of health inequalities
  - Working with partners to protect Surrey residents from communicable diseases and environmental hazards
  - Providing oversight and support in the review, development and delivery of the Surrey Health and Wellbeing (HWB) Strategy
- 4.22 The PH service commissions a range of services centred on key PH priorities including:
- Healthy lifestyle services including stop smoking, weight management and mental health;
  - 0-19 services including health visitors and school nurses;
  - Substance misuse services relating to drugs and alcohol;

- Sexual health services including contraception and genitourinary medicine (GUM).
- NHS health checks.

4.23 The services commissioned by PH are all preventative in approach and targeted at reducing health inequalities. This is one of the Council's key strategic aims and an overall ambition of Surrey's Health and Wellbeing strategy.

4.24 The PH service has continued to focus on supporting Surrey's recovery from the Covid-19 pandemic as well as remaining vigilant for other potential threats such as monkey pox or avian flu. PH uses its expertise to ensure that accurate and up-to-date information is provided to decision makers.

4.25 The wider Public Service Reform (PSR) directorate includes a range of jointly funded services that are accountable to both Surrey County Council and Surrey Heartlands Integrated Care System and focus on driving the continuous improvement of a public service model that supports the delivery of our integrated health and social care strategies.

4.26 This includes the Insights and Analytics unit which is bringing together research & analytics across a range of functions within SCC (PH, population insight and surveys and research) and Surrey Heartlands Integrated Care Board (business analytics and population health management PHM) to:

- develop shared health and care analytics, by understanding the needs of the population and how that can be delivered efficiently and effectively
- incorporate the bigger picture of the drivers of health and care, and the wider determinants of those drivers such as economy, transport, community networks
- design the move from reactive to preventative interventions care by moving from descriptive analytics to more predictive and prescriptive driven by evidence and insight
- develop new and collaborative ways of working among our teams as well as with our partners.

4.27 Key responsibilities to deliver this vision will include:

- Facilitating innovative decision-making at all levels of Surrey's Integrated Care Systems and the County Council.
- Driving cross-system priorities, helping to reach across traditional organisational boundaries.
- Steering a Population Health Management (PHM) approach to care planning and delivery.
- Helping to drive transformation of all services delivered as part of the ICS and SCC through evidence and insight driven operational decision making.
- Understand the lived experience of people in Surrey in order to demonstrate the human aspects of the data.
- Working closely with stakeholders across the whole system to ensure understanding of population needs at local and system level.

### **Current 2022/23 budget position**

4.28 The current directorate budget is £35.4m, £34.5m of which relates to Public Health and the remaining £0.9m to Public Service Reform functions. A balanced budget outturn is expected for 2022/23.

4.29 In addition to its core budget, the PH service has continued to manage deployment of the remaining £10.6m Contain Management Outbreak Fund (COMF) monies carried forward from

2021/22. This funding is expected to be fully spent on activities to support the recovery from the Covid-19 pandemic and to manage additional costs that are still being experienced due to the pandemic.

## Financial pressures

- 4.30 Surrey's PH service continues to operate in a very challenging financial environment. Surrey continues to receive a very low level of PH funding – the third lowest allocation per head of population in the country and more than 40% below the national average allocation. Although Surrey's PH grant has increased by £4.1m in the last three years, this has come with new responsibilities and has failed to make-up for cuts to PH funding that the government mandated in earlier years after the responsibility for PH transferred to SCC in 2013/14.
- 4.31 SCC's PH grant in 2022/23 is £39.6m. £34.5m of this is allocated to fund preventative services commissioned by the PH service and the remaining £5.1m is allocated to services delivered or commissioned by other parts of SCC that contribute to meeting PH outcomes with the remit of the grant criteria. This has required the PH service to make reductions to the preventative services it directly commissions, although of course if the funding was allocated instead to the PH service this would require reductions in other SCC services.
- 4.32 The combination of the above factors has meant Surrey's PH service has had to significantly reduce expenditure on the services it directly commissions in recent years.
- 4.33 PH's latest MTFS proposals include pressures of £1.2m in 2023/24 and £4.7m across the whole 2023-28 MTFS period. These pressures relate to pay and non-pay inflation. Pressures are offset by the assumed increases in the ringfenced PH grant in future years. It is assumed that inflationary pressures can be contained within increases to PH grant funding, but there are risks that this may not be the case for all service areas, most notably in relation to NHS Agenda for Change pay rises which impact on several services that PH commission. Given the wider economic situation, it is also possible that there will be no increase to, or a reduction in, the public health grant funding.
- 4.34 The wider PSR directorate currently employs £1.4m of posts working on data insights and supporting broader integration across Surrey's health & social care system. These posts are currently funded on a temporary basis outside of PSR's budget and the Final Budget assumes that they will continue to be funded on a temporary basis out a combination of SCC corporate finding and funding from health partners pending a decision about the permanent requirement for these roles.

## Financial efficiencies

- 4.35 There is no efficiency requirement for the PSR directorate in the Final Budget position as the PH service's budget is fully funded by the ringfenced PH grant. It is assumed for planning purposes that service pressures can be contained within future year increases to PH grant.

## Horizon scanning

- 4.36 At present the future of the PH grant remains unclear. It was expected that the PH grant ringfence would be removed as part of wider local government funding reform, but this remains uncertain. PH will need to remain responsive to any changes in grant funding. In the meantime, they will

continue to lobby for increased PH funding to support the delivery of the health and wellbeing priorities for Surrey residents.

- 4.37 Most of PH’s major service contracts are coming up for renewal in the next few years. A key focus of the service will therefore be ensuring new service specifications take account of the latest health status of Surrey’s population and targeting service provision to address health inequalities. The procurement processes will consider how refreshed services can be commissioned to maximise value for money for residents.
- 4.38 Through a focus on research, partnering with academia and industry, and data across the wider Public Service Reform directorate, the team will be looking at how we drive health and social care devolution to its full potential, lobbying and influencing government where appropriate on future models of public service that transforms peoples’ lives. Working effectively in this space, the council hopes to be able to influence future public policy, leading to a more sustainable public service model.
- 4.39 Part of this will be seeking to maximise investment in preventative services commissioned by PH, that deliver key long-term financial and non-financial benefits. The PH service has been reviewing areas where additional investment is needed to address the priority of reducing health inequalities and fulfil the priorities of Surrey’s Health & Wellbeing Board strategy. Potential investments totalling £6.5m have been identified, which can be flexed depending on available resources. In response to the scale of the financial challenges facing SCC this investment has not been included in Final Budget. There does though remain an ambition to increase investment in PH services in the future.

## CHILDREN, FAMILIES AND LIFELONG LEARNING

### Context

- 4.40 The Children, Families and Lifelong Learning directorate’s strategic focus is set out in the graphic below. We root children and families in our hearts and minds because it is our purpose to ensure that every child is seen, heard, feels safe, and can grow



### Current 2022/23 budget position

- 4.41 At the end of November, there is a forecast variance of £17.8m within CFLL driven by variances across a number of key areas.

- 4.42 The most significant is Home to School transport which is forecasting an end of year overspend of £13m against a budget of £41m. The overspend is driven by an increase in route costs of up to 20% since last year due to inflationary impacts on fuel prices. This is combined with managing the increase in SEND demand of 9% from September 2022 in line with Education, Health & Care Plan (EHCP) rate projections.
- 4.43 Children Looked After (CLA) placement costs are forecast to overspend by £4.4m. This pressure is a result of the lack of suitable placements being available within the provider market and continued demand for placements. This has resulted in a number of very high cost supported accommodation placements, with this category accounting for £2.4m of the £4.4m.
- 4.44 Staffing overspends within Family Resilience and Corporate Parenting of £2.5m are driven by the use of agency staff to cover vacancies and the double funding of some posts while newly trained social workers get up to speed. In order to secure permanent staff, appointments are also being made above the bottom step of the grade which reduces the impact of any permanent appointments compared to previous assumptions.
- 4.45 In addition to the staffing pressures, children with disability care budgets are also forecasting an overspend of £2.3m due to the levels of demand and pressures in direct payments and personal support. This level of demand is a continuation of pressures experienced during 21/22.

### Financial pressures

- 4.46 The financial pressures forecast during 2022/23 are almost all ongoing pressures which are expected to continue into 2023/24. The two largest areas of pressure are Home to School Travel Assistance £18.1m and LAC placements £7.0m.
- 4.47 Both are being driven by a combination of demand and inflation increasing costs year on year. For Home to School Travel assistance, there is the need to address the significant in-year overspend in the 2023/24 base budget as set out in paragraph 4.42.
- 4.48 Another similarity between CLA placements and Home to School Travel Assistance, is the impact of a lack of sufficiency in their respective markets. The shortage of suitable placements for LAC is a national issue causing an increase in the use of 'unregulated' placements due to a lack of alternatives. These placements often come at particularly high costs and the situation means that authorities are competing with each other as places become available.
- 4.49 Whilst not such a nationally publicised issue, a lack of drivers is also impacting the Home to School Transport services and one of the reasons for the increase in costs over the last 12 to 18 months. A lack of providers in certain regions of Surrey mean that there are both difficulties in finding suitable provision, but also bids are not driven down through natural competition.
- 4.50 Improving recruitment and retention within the service is another pressure within the 23/24 position. In order to address the 22/23 overspend caused by the level of agency workers in roles, a number of proposals are being introduced to increase the number of permanent workers. These come with an upfront cost with the aim of longer-term efficiencies. In 23/24 £1.3m of costs are included associated with the trainee social worker scheme, apprenticeships and pay progression for existing staff.

## Financial efficiencies

- 4.51 The largest efficiencies are within CLA placements through a combination of social work practice reducing escalation of needs and more specific programmes to target particular cohorts, such as the reunification programme (£0.4m).
- 4.52 The completed Children's Services Diagnostic undertaken alongside IMPOWER identified potential efficiencies based on reviewing past social work cases and considering alternative decisions that would have had a different outcome. This enforced existing assumptions about the impact of new practice models and, based on the high range scenarios, is estimated to be able to produce an efficiency of £2.6m in 23/24.
- 4.53 In addition to the diagnostic, other work is being considered to deliver efficiencies to mitigate growth in CLA costs. Stretch targets of a further £3.4m have been included to consider potential opportunities to further expand the Capital programme and sufficiency offer within the County, aligning the needs of children with the cost of service provision may also help to identify potential anomalies which may lead to cost efficiencies.
- 4.54 As well as the practice changes, increasing capacity for Social Care placements within Surrey is estimated to deliver further efficiencies. This is through both building additional bed spaces through the CLA Capital programme (£0.3m) and block purchasing beds from external providers for discounted rates (£0.3m).
- 4.55 Efficiencies within Home to School Travel Assistance are based around reducing the reliance on taxis and solo routes to more self-sufficient transport options such as bursaries, Independent Travel Allowances (ITA) and Independent Travel Training (ITT). These are estimated to build on efficiencies delivered in 23/24 to provide a further £3.0m in 23/24.
- 4.56 As well as the Children's Diagnostic work, there are two further efficiencies linked to the cross-cutting transformation programme. These are part of corporate wide projects focused on identifying contract efficiencies (£0.5m) and additional income from fees and charges (£0.3m) and a further reduction in staffing headcount (£0.2m).

## Special Educational Needs & Disabilities (SEND) / Dedicated Schools Grant High Needs Block (HNB)

- 4.57 In the 2023/24 MTFs the previously required Dedicated Schools Grant (DSG) High Needs Block (HNB) offsetting reserve contribution budget is being reduced by £22m to leave a residual £5m budget. This is as a result of the 'safety valve' agreement which was signed in March 2022. This agreement sees the Council receive £100m of DSG funding in exchange for a contribution from its own general fund (from the existing HNB offsetting reserve) and schools through a 1% block transfer for five years, in order to eradicate the HNB cumulative deficit.
- 4.58 From this £5m budget, between £2-£2.5m has been earmarked to fund the cost of running the Additional Needs programme as it transitions from the Council's wider transformation programme into an ongoing Business As Usual (BAU) state within CFLL.

- 4.59 At the end of 2022/23 the council's HNB offsetting reserve will have sufficient balances to make the agreed contributions so, assuming the Council can remain on the current trajectory, there will be no requirement for further contributions.
- 4.60 To date, the Council has completed the first two quarterly monitoring reports to Department for Education (DfE) which are a requirement to continue receiving the additional grant funding. Whilst these identified that the Council remains currently on track, they highlighted the significant change in circumstances from March 2022 to the present time, in particular the impact of inflation on costs for schools and the Council, which has been logged with the DfE as a risk. The DfE also did not make the full requested capital contribution to the expansion of specialist places that the Safety Valve agreement relied upon and instead is requiring the Council to secure the capital through its Free School programme. Because a successful bid to this programme is not guaranteed, this is also a risk (see below).

### Capital budgets

- 4.61 The SEND and Alternative Provision (AP) Capital Strategy is the most significant lever being used to reduce costs within the DSG HNB. By creating more spaces within the County's maintained and special schools, this reduces the requirement to place children in the more high cost Non Maintained Independent (NMI) sector whilst also supporting the aim of inclusivity for those children. On average an NMI placement is c£30k more expensive so reducing the use of these is key to achieving financial stability within the HNB.
- 4.62 As mentioned above the impact of inflation has been significant over the past year and that is also the case within the Capital programme. Following a lower allocation from DfE of safety valve capital grants (£56m bid and £8m awarded) the Council is looking for ways to ensure the full SEND programme remains funded. This includes submitting bids for two new special free schools as part of the recent DfE bidding round.
- 4.63 In addition to the SEND Capital programme, a number of other capital projects impact directly within CFL. A number of these are managed through Land and Property (L&P) but the service benefits or costs would be seen within CFL budgets. As well as the SEND strategy referenced above, there is £101m for the Schools Basic Need programme (grant funded) and £71m for capital maintenance in schools across the MTFs period.
- 4.64 In a similar way to SEND, the Council is also wanting to expand the in-house provision for CLA as a lack of sufficiency within the County means that securing good value placements is increasingly difficult. As well as refurbishing existing children's homes, the CLA Capital programme is focusing on creating additional capacity through new homes in the County. This programme is also looking to support Care Leavers through increased provision including Houses of Multiple Occupancy (HMOs).

### Horizon scanning

- 4.65 The national pressures within Children's social care recruitment and placement sufficiency will continue to influence the operating environment for CFL for a number of years, as will the cost of home to school transport in those local authority areas with extensive rural communities such as Surrey.

- 4.66 In Surrey we anticipate being one of the likely early local authorities to be inspected under the new inspection framework (currently being piloted by Ofsted and CQC) for the area's SEND provision, which may take place as early as 2023. Within the timeframe of the Medium-Term Financial Strategy there is also likely to be a full children's social care Ofsted inspection (in addition to one or more focused visits) and HMIP Youth Justice inspection. These service areas are all actively engaged in improvement work which it is essential to maintain in order to secure reliably good services for our children and families and to work towards delivering outstanding services.
- 4.67 Any financial implications resulting from the ongoing legislation changes from the schools white paper (Opportunity for All) and SEND Green paper (SEND review: right support, right place, right time) will be monitored. To date there is no anticipated direct impact on the General Fund of the Council, but the potential move towards multi-academy trusts (MATs) is one area where this may occur.

## ENVIRONMENT, TRANSPORT AND INFRASTRUCTURE (ETI)

### Context

- 4.68 ETI is a future-focused Directorate which aims to shape places, improving the environment and reaching sustainability and climate change targets. ETI provides many "universal services" to residents, services which many or all residents access - including waste management and highways. Key service areas include:
- Waste management, including recycling or disposal of household waste and operation of community recycling centres;
  - Highway maintenance and street lighting;
  - Public transport;
  - Countryside;
  - Planning & Development; and
  - Supporting the county's and Council's response to climate change and carbon reduction
- 4.69 Over the period of the Medium Term Financial Strategy, ETI's key priorities are to:
- Continue to build upon the new Directorate organisation design - implementing and embedding the new Highways structure, coupled with further reviews of our Waste, Greener Futures and Planning functions;
  - Strengthen our financial sustainability to provide value for money to communities by leveraging available funding opportunities, identifying new commercial opportunities, opportunities for partnership working, innovating service delivery and developing our Greener Futures Finance Strategy;
  - Mobilise Ringway as the new Highways contract provider, improving quality of works across the county, continuing to identify opportunities to innovate and work more effectively, and delivering against carbon reduction outcomes including immediate adoption of a minimum 11% EV fleet with commitment to reach net zero by 2030;
  - Strengthen engagement with customers and communities through delivery of our Customer Enquiry Improvement Plan and establishing the cross cutting Greener Futures Engagement and Behaviour Change Working Group;
  - Working with key partners and members, finalise the design of our future waste services and conclude the waste contract dispute;

- Deliver the Council and county's carbon emission reduction targets in line with our Climate Change Delivery Plan. With 46% of Surrey's emissions resulting from Transport, a key part of delivering these targets will be supported by delivery of the Surrey Transport Plan, EV network rollout and Bus Back Better plans;
- Deliver the capital programme including the River Thames flood alleviation scheme in partnership with the Environment Agency, and £70m of capital schemes identified in phases 1-3 of the Surrey Infrastructure Programme and develop the pipeline for future schemes;
- Implement a new governance model to better support delivery of the Climate Change Delivery Plan and Surrey Infrastructure Plan; and
- Continue to maximise external funding toward revenue and capital activities, including grants, income and developer contributions

### Current 2022/23 budget position

4.70 ETI's current annual revenue budget is £142m. Key areas of spend include managing the recycling and disposal of the county's domestic waste collected at the kerbside and deposited at community recycling centres, managing the county's 3,000 miles of highways including repairing and maintaining the county's roads, streetlights, bridges and other assets, passenger transport including contracting bus services and operating the concessionary travel scheme for elderly and the disabled, and management of the countryside including providing visitor services.

4.71 A significant proportion of the Directorate's budget is linked to contracts, and ETI therefore recognises the need to work in close partnership with providers and markets to explore opportunities for efficiencies.

4.72 At month 8 ETI forecasts no overall variation against its revenue budget, although a number of pressures and risks are being offset or managed and are recognised in future budget plans. Key issues include:

- Higher than budgeted waste contract inflation is offset by improved prices of dry mixed recycling (£2m), and both are reflected in the future MTFS assumptions
- Additional costs of bus services, reflecting increased operating and fuel costs, are offset by additional government bus recovery funding. The 22/23 budget includes £2.1m to offset the ongoing impacts of changes in travel behaviour post-covid, in addition to inflationary adjustments. Concessionary fares volumes are currently below the budgeted amount, and this benefit is expected to continue.
- Street lighting energy prices have increased and are creating a pressure (£0.7m), currently offset by other highways underspends and additional income in the current year.

### Financial pressures

4.73 The ETI 2023/24 revenue budget includes pressures of £14.9m, £30.2m for the whole 2023-28 MTFS period; including:

- Inflation: significant spend within ETI is delivered through medium and long term contracts including bus services, highway maintenance, and waste management. Most contracts include provision for an annual inflationary uplift, e.g. to recognise that materials and labour costs are increasing. Inflation is currently high, with the need to reflect inflation in 2022/23 where higher than originally assumed in the budget, as well as additional inflation for future years, totalling £11.7m in 2023/24.

- Supporting and enhancing ETI services: other pressures in 2023/24 include the introduction of a young person's travel scheme, a new highway works management system, adjusting for changes to prior year plans, and addressing the impact of ash dieback. This follows investment in previous years to support the recovery of bus services following the Covid-19 pandemic, additional resources to deliver Council priorities including Greener Futures, and investment in managing the countryside including maintenance of public rights of way.

## Financial Efficiencies

4.74 The ETI 2023/24 revenue budget includes efficiencies totalling £3.9m, including the following:

- Waste management: the cost of dealing with dry mixed recyclable materials has reduced this year. Waste materials (e.g. paper) are a commodity and prices are influenced by supply and demand within a global market. At least in the short term this trend is expected to continue, providing a net benefit of £2m.
- Other efficiencies include the expectation that reduced volumes of concessionary bus journeys will continue (£0.6m), efficiencies anticipated from cross-cutting reviews of contract management (£0.2m) and fees & charges (£0.2m), new arrangements for enforcement of on street parking restrictions (£0.5m), use of developer funding (£0.4m), and completion of the council's programme to convert streetlights to LED (£0.3m). These are partially offset by the reversal of one-off efficiencies delivered in 2022/23.

## Capital budgets

4.75 ETI delivers infrastructure improvements through the Capital Programme, which includes the capital budget for projects which are in or approaching delivery, and the capital pipeline for schemes under development and subject to business cases. ETI's 5 year capital programme totals £1bn across the MTFS period. Key programmes and schemes include:

- Structural maintenance of roads, bridges and other highway assets
- The River Thames flood alleviation scheme and wider flood alleviation programme
- Highways and transport improvement schemes and programmes, such as the A320 Improvements, low emission buses, and the Surrey Infrastructure Plan
- Greener Futures, the Council's ambitious carbon reduction plan.

## Horizon scanning

4.76 In future years further opportunities are anticipated in a number of areas, including:

- Following an extensive procurement process the Council's new highways maintenance and improvement contract, delivered by Ringway, started this year. The Council and its contractor will work in partnership to explore further efficiencies, for example innovations in working practices and use of improved materials.
- The Government is consulting on its Waste and Resources Strategy which could have implications for how the Council manages domestic waste, and the cost of doing so. The Strategy includes provision to improve the reuse of products, to make producers responsible for the cost of managing the disposal of products and packaging, and to change the way waste and recyclable materials are collected – all of which could provide opportunities for achieving efficiencies in ETI's budget over the MTFS period and beyond.

### Context

4.77 The Surrey Fire and Rescue Service (SFRS) is a statutory service which aims to make Surrey a safer place to live, work, travel and do business. In recent years, in response to now His Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HIMCFRS), SFRS has put in place a major improvement programme which is set out in the Making Surrey Safer Plan (MSSP) 2020-24. A big part of the MSSP is about improving how we deliver prevention and protection activities, helping to prevent emergencies from happening in the first place.

4.78 Partnership working is key to the success of the MSSP, starting within Surrey County Council with Adult Social Care and Integrated Commissioning, Children, Families and Lifelong Learning and Public Health services, to help prioritise support to our most vulnerable residents. SFRS also aim to work better with other emergency services, District and Borough Councils and closer working with businesses to support the Surrey economy.

### Current 2022/23 budget position

4.79 SFRS currently has an annual revenue budget of £33m. At month 8 Fire forecasts an overspend of £2.5m on revenue budgets including:

- increased “logistics” costs including fuel, vehicle repairs, cross border support (where neighbouring fire authorities are closer and therefore respond to incidents), and communications, £0.8m
- recruitment, training and retention costs following London Fire Brigade transfers, £0.7m
- staffing pressures from increased usage of on-call staffing, inability to fully make operational staff vacancy factor and trainee back pay for additional hours worked, £0.6m
- a national requirement to compensate for annual leave on overtime, including backdated costs, £0.5m
- Ill health retirements and other, £0.2m
- The above pressures are mitigated by offsetting underspends and efficiencies of £0.3m

### Financial pressures

4.80 The SFRS 2023/24 draft revenue budget includes pressures of £6.5m, £11m for the whole 2023-28 MTFS period; including:

- Expected growth through pay inflation, including anticipated growth from nationally agreed firefighter’s pay awards in 2022/23 and 2023/24, totalling £2.6m next year.
- Existing cost pressures including vehicle repairs and maintenance, communications system costs, higher training costs due to staff turnover, increased costs of neighbouring fire authorities where they are nearer and respond to incidents in Surrey, totalling £1.5m in 2023/24.
- Recruitment and resilience measures designed to offset the ongoing impact of firefighters leaving the authority, including additional recruitment of both temporary and permanent operational staff, enhanced skills, incentives to retain firefighters and additional learning and development, totalling £1.4m in 2023/24.
- Other smaller pressures total £0.9m in 2023/24 and include general inflation and additional staffing pressures.

## Financial Efficiencies

4.81 Following significant transformation and modernisation of the Fire service across 2019-21, which included re-alignment of resources into prevention and protection teams alongside a more efficient response operating model, efficiencies in future years (£0.9m in 2023/24) are focussed on optimising spend through continual improvement and consideration of alternative funding, including use of grants and capital funding, commercialisation of some services and assets, and anticipated reduction in overtime resulting from recruitment and resilience.

## Capital budgets

4.82 SFRS currently has a Capital Programme of £23m across the MTFS period which includes replacement of fire appliances, other vehicles and equipment.

## Horizon scanning

4.83 Efficiency measures subject to further development include a shared fleet maintenance facility, fleet rationalisation through use of telematics, more effective use of property such as co-location with other services, and a review of learning & development provision. The Community Risk Management Plan will be reviewed and updated for the end of 2024, and will include a wider review of the service, including efficiency and an opportunity to consult on any changes.

# PROSPERITY, PARTNERSHIPS AND GROWTH

## Context

- 4.84 The Directorate plays a key leadership role in convening and developing lasting and effective relationships and partnerships with key organisations locally, regionally and nationally and in driving forward the Council's ambitions and Economic Growth Strategy for Surrey through innovative, targeted delivery programmes.
- 4.85 Relationships and partnership work with Government departments and officials, national agencies, national and regional representative bodies, District and Borough Councils, other authorities, County organisations and local bodies contribute to the achievement of the Community Vision 2030 and all four of the Council's strategic priorities. This is most obviously manifested in the proactive planning, preparation, positioning and activity in relation to Government policy and programmes, such as Levelling Up White Paper and the potential to secure a County Deal for Surrey.
- 4.86 'Surrey's Economic Future: Our 2030 Strategy Statement' and the partnership delivery programme that supports it, directly contribute to the Council strategic priority of 'growing a sustainable economy so everyone can benefit'. They also contribute to the 'reducing health inequalities', 'enabling a greener future' and 'empowering communities' priorities.
- 4.87 They set out the path to economic recovery and prosperity, identifying four main themes/opportunities for the County's post Covid-19 resilience and growth, including:
- Delivery of Surrey's Inward Investment Programme and promotion of the Surrey Story;
  - Convening and place leadership to reimagine Surrey's High Streets for the future;
  - Skills for growth: maximising opportunities through skills development for the future; and
  - Delivery of key Infrastructure across Surrey, including gigabit capability, highways and transport, and business networks and partnerships.

4.88 Specific interventions are already being taken forward to drive a more innovative, inclusive, and productive economy. These include the launch of a Surrey Skills Plan developed in partnership with business and providers, and a new Surrey-specific approach to inward investment, a strategic, community-led approach to placemaking, the development of a county-wide accommodation, housing and homes strategy and a programme of work to improve full fibre digital connectivity in Surrey.

### Current 2022/23 budget position

4.89 The Prosperity, Partnership and Growth Directorate has a total budget of c£1.6m, which is materially targeted at the Economic Growth Team and associated costs. The directorate is forecasting a small underspend of £104k, due to recruitment delays and reductions on project spend.

### Financial Pressures & Efficiencies

4.90 For 2023/24 there is a requirement to strengthen the team further by adding a role to deliver the Surrey Story. Pay and price inflation add a further cost, creating a total pressure of £0.2m. This pressure is offset by recognising the 2022/23 underspend due to recruitment delays and staff turnover plus ending the funding for LEPs.

## CUSTOMER AND COMMUNITIES

9

### Context

4.91 The Directorate includes the following services:

- Community Partnerships and Engagement
- Customer Services
- Libraries, Arts, and Heritage
- Registration and Nationality Services
- Coroners
- Trading Standards and Health & Safety

4.92 Customer and Communities delivers critical day-to-day services and operations, while also shaping and driving several connected key strategies and transformation programmes that are central to the successful achievement of the Surrey County Council (SCC) Organisation Strategy, 2030 Community Vision and Surrey Health and Wellbeing Strategy.

4.93 The Directorate is at the forefront of shaping and delivering the Council's priority ambition for empowered and thriving communities. Supporting the development of thriving communities is essential to delivering a greener future, driving a sustainable local economy, and tackling health inequalities - and strong and active communities are a crucial ingredient in enabling more people to live independently for longer.

4.94 The Directorate is delivering key transformation programmes that continue to adapt and improve services to meet the changing needs to our residents and ensure financial sustainability:

- **Customer Transformation** - making the experience of dealing with the council quicker, easier, and better by shaping a new relationship with our customers, managing their enquiries in a more efficient, proactive, and connected way and increasing our use of digital self-serve technologies and data insights;

- **Libraries and Culture Transformation** - delivering a modern and efficient set of services across Libraries, Arts and Heritage reducing net cost and increasing impact for communities in Surrey;
- **Enabling Empowered Communities** – designing and introducing new approaches to reinvigorate our relationship with residents, empowering communities to tackle local issues and support one another, while making it easier for everyone to play an active role in the decisions that will shape Surrey’s future.

## Current 2022/23 budget position

- 4.95 The net budget for the Directorate for 2022/23 amounts to circa £17m. This includes significant income budgets in excess of £15m, primarily across Cultural Services (Libraries and Surrey Arts) and Registration and Nationality Services. Income comes primarily from weddings (from providing registrars services at both registry offices and licenced venues), music lessons provided by Surrey Arts in schools, archaeology services, and fines and reservation charges in libraries.
- 4.96 All areas have delivered significant service improvements and cost reductions over the last three years. For example, the Library Service net budget has reduced by 34% and the Customer Services budget has reduced 15% since 2019/20. The ambition is not only to ensure the sustainability and quality of services provided, but to also think creatively about how services are delivered efficiently and effectively.
- 4.97 The full year Directorate budget forecast for 2022/23 is a balanced position. This includes:
- A forecast overspend of £0.3m for the Coroners Service, due to staffing pressures and contractual costs required to ensure operational delivery;
  - An offset of £0.3m from additional income which is delivering part of the 2023/24 efficiencies early, and one-off staffing vacancies.
  - The overall balanced position also reflects the application of Covid-19 funding (£0.4m) to directly offset income lost in the Libraries and Cultural Services due to the pandemic.

## Financial pressures

- 4.98 The Coroners, Trading Standards and Health & Safety functions transferred to Customer and Communities from the Community Protection Group this year with a net budget of circa £6m. The Coroners service moved with a budget pressure of £0.7m, in part due to staffing and a recently re-procured transport contract. This pressure is partly mitigated this year by the use of a one-off reserve for special inquest costs. Following the transfer in of these additional services and recognition of the breadth and depth of the recently formed Customer and Communities Directorate, there was also an identified need to meet the future strategic leadership requirements of the re-shaped directorate in order to deliver both its operational and wider cross organisational goals (£0.5m). These two specific pressures related to the composition of the Directorate have been met as corporate investments and are built into the base budget of the re-shaped Directorate from 2023/24.
- 4.99 The Directorate relies on significant income generation and continues to face challenging income targets which, for some services, have not yet returned to levels before the covid pandemic. Whilst 2022/23 has seen an increase in income since last year, Libraries and Surrey Arts income remains lower than in 2019/20, causing a budget pressure of £0.4m this year. Demand for services has changed, for example audio visual and PC rental has reduced. Meanwhile, Registrations income levels have returned well, particularly in relation to weddings.

4.100 Figures for most services are encouraging and there has been a budget planning assumption for 2023/24 that income levels return to pre-pandemic levels but this will require further close monitoring over coming months. Meeting this assumption requires significant activity to take place to ensure targets are achieved or that related expenditure reduces and that the Directorate can continue to manage emerging pressures from within the existing available budget envelope.

4.101 In addition to working to ensure that income levels return to pre-covid levels, the Directorate has identified additional budget pressures mainly relating to pay inflation (£1.5m) and also to reduced funding from the Police for the Coroners service.

## Financial Efficiencies

4.102 The Directorate has had to identify a range of options to offset these pressures. Specifically:

- £0.4m additional income generation with a particular focus on additional service offers through Registrations plus inflationary uplifts to fees and charges
- £0.5m service and cross service efficiencies that can be made while largely maintaining the current agreed strategic direction and service delivery expectations – this includes:
  - Reducing staffing costs through digitalisation and scheduling optimisation of Registration services;
  - Reducing staffing costs in Trading Standards;
  - Reducing staffing costs in Customer Services through digitisation and prioritisation (including no longer mediating non urgent highways calls through the Customer Contact Centre for those who can engage digitally);
  - Reducing business support costs following the introduction of the MySurrey platform;
  - Reducing total spend on the libraries book fund and Community Partnered Libraries.

## Capital

4.103 The Directorate has significant pipeline capital investment plans in development to transform the libraries estate and to provide improved mortuary provision. The Directorate also oversees the corporate Your Fund Surrey capital investment programme

4.104 The Capital Pipeline contains investment to enable the libraries transformation programme. This is a five-year programme of work to modernise library settings across Surrey to;

- Enable libraries to meet the changing needs of communities;
- Support wider strategic priorities; and
- Ensure library assets are fit and sustainable for the future.

## Horizon Scanning

4.105 Further efficiencies would materially reduce or slow aspects of agreed strategic priorities and direction.

## RESOURCES

### Context

4.106 As the Council continues to drive forward its ambitious transformation programme to improve the services we provide to residents and its commitment to the Community Vision for Surrey 2030, the Directorate is focused on ensuring that corporate support and enabling services are of the highest calibre, at the right cost.

4.107 The pandemic and the latest financial volatility have shown how teams are responsive, adaptable and collaborative in tackling extreme challenges. The Resources Directorate wants to build on this, to provide the Council with a more joined up approach to support from back-office functions, generating opportunities to realise better customer experience and efficiency through digital innovation and creating 'teams around a service/project.' This is intended to help deliver a step change in the effectiveness of our services, and to meet aspirations to be best in class with regard to the support we provide to our service directorates. The skills and behaviours that this demands of Resources colleagues will be consistent with, and reflective of, those required from front line services that are more focused on place, communities and individual choice.

4.108 The Resources Directorate improvement programme aims to ensure the consistent delivery of high quality, trusted advice and services, performing to their full potential and in a collaborative way, as a key enabler for the County Council to achieve the best outcomes for local residents. In addition to a number of individual service improvement plans, there are the following cross cutting areas of focus within the programme:

- Business Partnering;
- Performance Management;
- Leadership Development;
- Value Tracking;
- Agile Organisation; and
- Digital Business Insights and Digital Transformation

4.109 Through this improvement programme, the Directorate are looking to provide efficient services without reducing the service offer. 2023/24 continues the process of identifying efficiencies following progress in stabilising and raising the quality of services provided. These efficiencies are driven through a number of areas and initiatives.

### Current 2022/23 budget position

4.110 The Directorate is seeing a number of financial pressures emerging, the largest being high energy and food inflation. In addition, there is an identified need to strengthen the capacity in some services in order to meet the organisational ambitions. There are also delays to delivering some of the planned efficiencies to the running cost of buildings. This is leading to a likely overspend of £0.5m this year, after mitigations.

### Financial pressures

4.111 The pressures in 2022/23 continue into 2023/24, these plus new pressures require budget growth of £9.2m. The inflation pressures for next year are estimated as £7.8m. The high level of demand for Legal services continues and additional capacity is required to support the council's corporate strategies, this adds a further £0.9m. Additional pressures of £0.3m relate to loss of income.

### Financial Efficiencies

4.112 Efficiencies of £6.4m have been identified to offset the pressures. These efficiencies relate to:

- £2.7m of Land & Property (L&P) efficiencies, such as office rationalisation, resources, containing energy inflation by reducing usage. This is in addition to £9.4m of L&P efficiencies delivered since 2018;

- £0.3m additional income from the schools meals service, including increasing the price of school meals in April by 10% compared to September 2021 prices.
- £0.8m of IT&D efficiencies, such as additional income and mobile phone contract savings;
- Savings from the disaggregation of Orbis services will deliver £0.6m;
- £2m efficiencies from a variety of services including Business Operations transformation and improvements following implementation of MySurrey, additional income in Finance and contact cost savings.

4.113 The Directorate contains the Transformation Support Unit, which drives further financial efficiencies across the organisation through the ambitious and forward-looking transformation programme whilst ensuring a uniform and consistent approach to transformation and therefore making a significant contribution to achieving the financial sustainability required, so that the Council can deliver priorities, resulting in better outcomes for Surrey residents.

## Capital

4.114 The Directorate has significant capital investment and delivery plans relating to the Council's Land and Property (£813m) and IT&D (£41m) services, over the MTFS period. These investment plans are developed in close consultation with front line services to ensure that the Council's assets are used effectively and are fit to support the efficient delivery of services to our residents and to support our staff to carry out their responsibilities.

9

## COMMUNICATIONS, ENGAGEMENT AND PUBLIC AFFAIRS

### Context

4.115 The Communications, Engagement and Public Affairs service is responsible for developing a Communications Strategy for Surrey County Council, mapping out a high-level narrative based on organisational priorities, underpinned by 'super campaigns' and ongoing resident and stakeholder communications.

4.116 The Directorate:

- Through a clear and consistent narrative, ensures residents understand the Council's challenges and its transformation achievements;
- Delivers a public affairs strategy which focuses the Council's political activities and makes clear the Surrey offer to key national Government stakeholders;
- Is responsible for developing an internal engagement plan that cultivates a culture of inclusion, nurtures talent, promotes diversity and creates connected employee communities;
- Ensures the organisation is prepared to respond to high profile media interest, protecting the Council's reputation, particularly in the areas where we are making critical service improvements; and
- Ensures the Council is prepared to deal with reputational challenges by being able to provide crisis management and support, ensuring that the bigger picture and a clear direction is connecting with stakeholders and partners.

4.117 There is an ongoing requirement for the service to maintain good, clear, consistent communication in support of the County's recovery from the pandemic including providing enhanced communications relating to the medium-term impacts of the pandemic, such as mental health, domestic abuse and financial hardship.

## Current 2022/23 budget position

4.118 The Directorate operates within an overall budget of £2m, managing demand pressures within existing financial resources wherever possible. The latest forecast is a balanced position.

## Financial Pressures & Efficiencies

4.119 For 2023/24 pay and price inflation creates a total pressure of £0.1m. This pressure is offset by recognising reduced staffing costs due to staff turnover.

# 5. FINANCIAL STRATEGY AND DRAFT BUDGET 2023/24

5.1 This section sets out our approach to developing a Budget and Medium-Term Financial Strategy. We committed, as part of our Finance Improvement Programme, to assessing future budget setting processes against a best practice framework. This process began for 2020/21’s budget and has continued in successive years. The following six hallmarks are used as a self-assessment tool, with current progress set out alongside.

**Table 1 – Self-assessment against the Hallmarks of building the Budget**

| Hallmark  | Self-Assessment   |
|---|---|
| <b>The budget has a Medium-Term focus which supports the Strategic Plan</b> | <ul style="list-style-type: none"> <li>The budget process has been coordinated across Directorate Leadership Teams, Strategy, Transformation and Finance; the integrated approach ensures that the budget is focussed on delivering Corporate priorities and linked to the core planning assumptions</li> <li>Despite significant uncertainty in the financial planning environment, our approach continues to focus on a five-year Medium-Term period, which bears the hallmarks of sustainability and avoids short-term measures or depletion of reserves</li> <li>The Council launched a cross-cutting approach to budget setting for 2023/24 onwards to ensure that dedicated focus, resource, and adequate time is dedicated to solving the medium-term budget gap</li> </ul>                            |
| <b>Resources are focused on our vision and our priority outcomes</b>        | <ul style="list-style-type: none"> <li>The budget is based on clear integration with the Organisation Strategy, the Transformation programme and corporate priorities; developed in partnership across the organisation through the Strategic and Integrated Planning Group</li> <li>The draft budget has been subject to numerous iterations through Cabinet and CLT over the last five months to narrow the gap and clarify and update assumptions</li> <li>The comprehensive application of a recognised PESTLE+ framework to review the likely environment for budget setting and service delivery</li> <li>The assessment led to the development of Core Planning Assumptions, by representatives from across the Council’s services, to provide a consistent framework for planning purposes</li> </ul> |
| <b>Budget not driven by short-term fixes and maintains</b>                  | <ul style="list-style-type: none"> <li>The cross cutting approach, integrated with transformation and with a focus on opportunities required over the medium-term ensures that we are acting now to secure a sustainable budget over the next five years</li> </ul>   |

|   |   |
|---|---|
| <b>financial stability</b>  | <ul style="list-style-type: none"> <li>• Business cases are built around corporate priorities; focussing on benefits realisation and deliverability across transformation, invest to save and capital</li> <li>• For the past four years, we have not used General Fund reserves to support the budget – the planning assumptions are for a continuation of this strategy over the medium-term</li> <li>• We aim to continue to hold general fund reserves appropriate to meet the assessed risk environment and specific pressures to ensure our continued financial resilience despite an increasingly volatile and uncertain external environment</li> <li>• Our reserves exceed the 5%-10% range recommended by Grant Thornton in their document '<u>Lessons from recent Public Interest Reports.</u>' This is deemed appropriate and reflects our risk assessment of the external local government environment in which we operate.</li> </ul> |
| <b>The budget is transparent and well scrutinised</b>                                   | <ul style="list-style-type: none"> <li>• The Budget Task Group and Select Committees have been involved early in the budget process to set out the approach, covering the Core Planning Assumptions, cross cutting efficiencies and funding projections. They have been provided the opportunity to put forward suggestions to close the budget gap. In October, Directorate pressures and proposed efficiencies were shared in advance of finalising the draft budget proposals. These sessions will continue throughout the budget setting process.</li> <li>• Opposition Groups have been engaged earlier in the budget setting process for 2023/24. They have been consulted on the core planning assumptions, cross cutting efficiencies, funding projections and asked to contribute suggestions to close the budget gap.</li> </ul>  |
| <b>The budget is integrated with the Capital Programme</b>                              | <ul style="list-style-type: none"> <li>• Section 6 sets out the Draft Capital Programme</li> <li>• The Capital Programme is developed alongside the revenue budget and is overseen by Capital Programme Panel. We continue to clearly demonstrate delivery of corporate and service priorities and set out the impact and linkages with the revenue budget</li> <li>• Where decisions on available funding have been required, prioritisation of capital bids have been reviewed by a sub-set of Cabinet and CLT, taking into account parameters such as alignment to corporate priorities and impact on the revenue budget</li> <li>• The full borrowing costs of proposed Capital Programme are reflected in the revenue budget and the trajectory for borrowing costs has been assessed over the long-term</li> <li>• The full lifecycle costs of new investment are assessed to establish the long-term financial impact</li> </ul>             |
| <b>The budget demonstrates how the Council has listened to consultation with local,</b> | <ul style="list-style-type: none"> <li>• Section 9 sets out our approach to consultation, in summary:</li> <li>• We undertook in-depth engagement with residents in 2021 to understand their priorities for our spending and to gauge their reaction to a number of proposals. We have continued to validate the outcomes of that exercise in 2022 with other exercises, including focus groups with residents to look at services particularly important to households.</li> </ul>   |

|                                   |  |
|-----------------------------------|--|
| <b>people, staff and partners</b> | <p>We have also undertaken a cost-of-living survey with residents through the Surrey Health and Wellbeing Panel</p> <ul style="list-style-type: none"> <li>• During November and December 2022, we will engage further with residents, businesses, districts and boroughs, other public service partners and the voluntary, community and faith sector to understand their views about the draft budget and whether we are prioritising our resources in the right places</li> </ul> |
|-----------------------------------|--|

## Budget Principles

5.2 The MTFS for successive years has been built on a number of high-level principles which are used as a framework to set the budget. These have proven to be successful and have been reaffirmed for the 2023/24 budget.

5.3 The principles are:

- An integrated approach linking Organisation Strategy, Service and Transformation plans to the MTFS through cross-cutting business partnership;
- A balanced revenue budget with only targeted use of reserves and balances (i.e. using them for their intended purpose to cover one-off or time-limited costs);
- Regular review of reserves to ensure appropriate coverage for emerging risk;
- Budget envelopes set for each Directorate to deliver services within available resources;
- Budgets agreed and acknowledged by Accountable Budget Officers through Budget Accountability Statements;
- Cost and demand pressures contained within budget envelopes;
- Robust efficiency plans which are owned, tracked, and monitored;
- Managers accountable for their budgets;
- Scenario planning across pessimistic, optimistic, and likely assumptions to set realistic boundaries on the likely operating environment; and
- Working with partners to create best value for residents.

Principles more specifically related to setting sustainable Medium-Term budgets are:

- Developing and iterating five-year plans, integrated with transformation and capital investment across the Council;
- Continuing to adopt a budget envelope approach with a model to determine a consistent and transparent application of funding reductions to Directorate budget envelopes;
- Envelopes validated annually based on realistic assumptions and insight;
- Evidence bases used to underpin all efficiency proposals;
- Assurance that all efficiencies, pressures and growth are owned by Executive Directors with clear governance throughout the organisation;
- Pay and contract inflation allocated to Directorates to be managed within budget envelopes;
- A corporate transformation fund held centrally;
- A corporate risk provision/contingency held centrally; and
- A corporate redundancy provision held centrally.

## Revenue Budget Headlines

5.4 As an organisation we are constantly affected by our external environment, which has implications for both what we want to achieve and how we will deliver for our residents and communities. Understanding this context is integral in helping inform and shape how we plan and respond as an organisation to possible future scenarios.

- 5.5 The revenue budget has been developed during a period of significant uncertainty; with the impact of inflation forecasts, Government leadership and policy changes, funding, the impact of the cost-of-living crisis and likely demand for services in 2023/24 all very unclear. This uncertainty has been managed through the development and costing of a range of Core Planning Assumptions, which set out assumptions about the council's most likely operating context.
- 5.6 The assumptions have been developed from emerging policy trends and predictions drawn from government messaging, strategies, policy think tanks and other influential institutions to build an expectation of future conditions. They are not intended to define a specific future, but list important factors that may affect the council's resources and services to inform strategic and financial planning in the short to medium term.
- 5.7 The creation of the Core Planning Assumptions drew from subject matter expertise from across the council, forming a set of likely scenarios against which the service strategies and the Final Budget and 5-year MTFs were developed.
- 5.8 Throughout the planning process, we have followed the budget envelope principle where Directorates are challenged with producing a budget that matches available funding. This entailed Directorates identifying efficiencies to offset pressures from demographic growth, inflation and new responsibilities.
- 5.9 Directorate growth pressures have been subject to a number of iterations and changing assumptions, particularly in relation to forecast inflation culminating in the final budget, with the following main changes from 2022/23:
- **An increase budget of £61.4m**
  - Total pressures of £130.7m, comprising
    - Staffing pressures of £28m
    - Contract & Price Inflation of £54.2m
    - Demand and other pressures of £41.7m
    - Capital; financing costs of £6.8m; and
  - Efficiencies of £69.3m
- 5.10 The level of pressures represents a significant increase in the average annual pressures identified, when compared to recent years, primarily due to the high inflation environment. This has necessitated the identification of a higher level of efficiencies than has been required in recent years.
- 5.11 In setting the budget, pay, contract and price inflation has been calculated by Directorates, informed by corporate assumptions. Pay inflation at 5% has been calculated and allocated to Directorates, in addition to other pay and recruitment pressures. This is a planning assumption only and does not represent the proposed pay award. The actual pay award for 2023/24 will be decided by the People, Performance and Development Committee after formal consultation. Any further pressure or reduction from the 5% will be dealt with in-year. Contract and price inflation has been set based on a blended assumption of annual average RPI and CPI of 7.3% for 2023/24, with variations for specific contracts and market variations where appropriate. In addition, there has been a need to increase base budgets to reflect the inflation experienced in 2022/23 above the 4% what was assumed in the budget position, an indicative 10.8% is used for these purposes,

again with variations for specific contract terms and market conditions where appropriate. Inflation has been included in Directorate envelopes.

5.12 The revenue budget envelopes for Directorates, Central Income and Expenditure and Funding are summarised in the table below. Overall, net expenditure has grown by £61.4m (5.9%):

- Pressures and Efficiencies are set out in further detail in **Annex A**
- A breakdown of the 2022/23 budget by Directorates and Services in **Annex B**.

**Table 2: Summary Final Budget Position for 2023/24.**

| Directorate                             | Budget 22/23<br>£m | Pay Pressures<br>£m | Contract & Price Inflation<br>£m | Demand & Other Pressures<br>£m | Efficiencies & Funding<br>£m | Total Movement<br>£m | Budget 2023/24<br>£m |
|---|--------------------|---------------------|----------------------------------|--------------------------------|------------------------------|----------------------|----------------------|
| Adult Social Care                       | 402.0              | 8.7                 | 29.8                             | 18.5                           | (19.2)                       | 37.8                 | 439.7                |
| Public Service Reform                   | 35.4               | 0.2                 | 1.0                              | 0.0                            | 0.0                          | 1.2                  | 36.6                 |
| Children, Families & Lifelong Learning  | 221.7              | 9.6                 | 6.7                              | 23.1                           | (11.3)                       | 28.1                 | 249.8                |
| CFL - High Needs Block - DSG            | 27.2               |                     |                                  |                                | (22.2)                       | (22.2)               | 5.0                  |
| Comms, Public Affairs & Engagement      | 2.2                | 0.1                 | 0.0                              | 0.0                            | (0.0)                        | 0.1                  | 2.2                  |
| Surrey Fire & Rescue Service            | 33.1               | 2.7                 | 0.2                              | 3.5                            | (0.9)                        | 5.6                  | 38.7                 |
| Customer & Communities                  | 17.0               | 1.5                 | (0.1)                            | 1.3                            | (0.8)                        | 1.9                  | 18.9                 |
| Environment, Transport & Infrastructure | 141.7              | 1.5                 | 11.7                             | 1.7                            | (3.9)                        | 11.0                 | 152.8                |
| Prosperity, Partnerships & Growth       | 1.6                | 0.1                 | 0.0                              | 0.1                            | (0.1)                        | 0.0                  |                      |
| Resources                               | 76.4               | 3.6                 | 4.5                              | 1.1                            | (6.4)                        | 2.9                  | 79.0                 |
| <b>Total Directorate Envelopes</b>      | <b>958.2</b>       | <b>28.0</b>         | <b>54.0</b>                      | <b>49.2</b>                    | <b>(64.8)</b>                | <b>66.3</b>          | <b>1,024.5</b>       |
| Central Income & Expenditure            | 81.9               | 0.0                 | 0.2                              | (0.7)                          | (4.5)                        | (5.0)                | 76.9                 |
| <b>Total Net Expenditure</b>            | <b>1,040.1</b>     | <b>28.0</b>         | <b>54.2</b>                      | <b>48.5</b>                    | <b>(69.3)</b>                | <b>61.4</b>          | <b>1,101.5</b>       |
| Business Rates (inc related grants)     | (121.1)            |                     |                                  |                                | (9.9)                        | (9.9)                | (131.0)              |
| Grants                                  | (93.0)             |                     |                                  |                                | (18.4)                       | (18.4)               | (111.4)              |
| General Council Tax                     | (735.1)            |                     |                                  |                                | (18.2)                       | (18.2)               | (753.3)              |
| Adults Social Care Precept              | (94.6)             |                     |                                  |                                | (18.1)                       | (18.1)               | (112.7)              |
| Collection Fund (Surplus) / Deficit*    | 3.7                |                     |                                  |                                | 3.1                          | 3.1                  | 6.8                  |
| <b>Total Funding</b>                    | <b>(1,040.1)</b>   | <b>0.0</b>          | <b>0.0</b>                       | <b>0.0</b>                     | <b>(61.4)</b>                | <b>(61.4)</b>        | <b>(1,101.5)</b>     |

## National Funding Context

### Spending Review & Local Government Finance Settlement

5.13 On the 17<sup>th</sup> November 2022, the newly appointed Chancellor of the Exchequer, the Right Honourable Jeremy Hunt MP, announced the Autumn Statement, alongside the publication of updated economic forecasts for the UK by the Office for Budget Responsibility (OBR). The announcements were widely anticipated, given the economic, political and fiscal uncertainty of the previous few months since the fiscal announcements made by the previous Chancellor at the end of September.

5.14 The Autumn Statement announced plans to close a significant fiscal gap (estimated at £55bn) through equal measures of reduced spending and tax increases. The Chancellor needed to provide confidence to the markets and the wider economy and set out plans that were both politically and economically credible. The announcements set out clear plans for the short-term and guidelines for the medium-term beyond 2025/26.

5.15 The Chancellor made some significant spending decisions for local government over the next 2 years, with increases in funding for social care and schools. Some of the additional funding has

been found by postponing the implementation of the social care reforms from October 2023 to October 2025, using the resources available to manage existing service pressures.

5.16 The provisional Local Government Finance Settlement (LGFS) followed on the 19 December and provided more details for 2023/24 about the announcements made in the Autumn Statement. Details of spending plans for the medium term are not set out, these will depend on the speed and level of improvement and growth in the economy. This continues the trend of uncertainty and a real risk of reductions being required in public spending in the medium term.

5.17 The Autumn Statement and LGFS headlines for Surrey County Council are as follows:

#### Revenue:

- The Levelling Up Secretary Michael Gove confirmed a £29.5 billion funding package as part of the provisional LGFS. The settlement means councils across England will benefit from an additional £5 billion – a 9% increase on last year’s settlement.
- The agreement for next year includes a one-off Funding Guarantee that ensures every council in England will see at least a 3% increase in core spending power before any local decisions around council tax are taken.
- Health and social care were prioritised with additional grant of around £2 billion for 2023/24.
- The draft budget included an estimated £15m of additional funding, which was considered a prudent but not worse case assumption based on the Autumn Statement announcements and given the lack of clarity on distribution formulas. The final allocations resulted in additional grant allocations of £30.7m, consisting of:
  - £19.7m of additional Social Care Grant
  - £9.4m of additional Market Sustainability and Improvement funding for adults social care (shown in the budget within the ASC Directorate)
  - An additional £1.6m of Discharge funding also for adults social care (shown in the budget within the ASC Directorate)
- In addition, the LGFS confirmed the following in relation to existing grant funding:
  - New Homes Bonus allocation was confirmed at £1.6m (£1m was assumed in the Draft Budget)
  - The continuation of the Services Grant was confirmed, previously announced as one-off funding for 2022/23. Surrey County Council’s allocation is £4.5m (a decrease from the £7.9m assumed in the Draft Budget)
- The LGFS confirmed that the Fair Funding Review of the allocation of Government Grant will not commence within this Parliament.
- The core Council Tax referendum threshold has been increased to up to 3% for 2023/24 and 2024/25
- The Adults Social Care (ASC) Precept limit is set at 2% for 2023/24 and 2024/25.
- Each 1% increase in either the core Council Tax or ASC Precept generates c£8.3m. Of the potential 5% overall increase available, the final budget assumes that 2.99% will be raised.

#### Capital

- Capital grants were not confirmed as part of the LGFS.
- SEND capital investment announcements made in the previous year’s settlement span 3 financial years to 2023/24. Confirmation of specific annual allocations from 2024/25 are yet to be announced. The Capital Programme includes a comprehensive SEND

investment programme, so any additional grant will reduce our need to borrow to fund these requirements.

- Assumption on other capital grant funding have been made in the final capital programme, based on historic allocations. Changes between these assumptions and final grant announcements will be managed in year.

## Final Funding for 2023/24

5.18 For some years, the most significant anticipated influence on the Council's funding has been the long-planned implementation of fundamental Government funding reform; the Review of Relative Needs and Resources, alternatively referred to as the Fair Funding Review. Our planning assumption is that reform would see Surrey County Council's funding drop significantly over the medium-term. Current indications are that reform will be implemented no earlier than 2025/26.

5.19 Total funding for 2023/24 for Surrey County Council is set out in the sections below.

## Council Tax Funding £862.2m (Council Tax £866.0m less collection fund deficit £3.8m)

5.20 The Provisional Local Government Finance Settlement confirmed there will be an increased referendum principle of up to 3% for core council tax for 2023/24 and 2024/25. For the Adults Social Care (ASC) Precept, the Government is allowing an additional 2% on top of the core element.

5.21 In setting the budget the Council has built in a 0.99% increase in core council tax. A 2% increase in the ASC precept is also proposed. Taking these factors into account it is proposed to increase council tax by 2.99% in 2023/24. This equates to an increase of £0.94 pence per Band D Property per week (£48.69 per year).

5.22 In setting the tax base for future years the District and Borough councils make allowances for growth in new properties, increases to reliefs, irrecoverable amounts and appeals. Going into next year, anticipated growth in base equates to 1.34% increase to the tax base. This is significantly higher than in recent years and the draft budget assumptions of 0.55%.

5.23 **Full details of the Council Tax Requirement and breakdown of the tax base by District and Borough can be found in Annex E.**

5.24 The Council also needs to consider the potential surplus or deficit relating to actual collection of council tax when setting the budget. This is the difference between the estimated council tax collectable each year, and that collected. The Government announced that repayment of collection fund deficits arising in 2020/21 due to the pandemic, will be spread over the next three years rather than the usual period of a year. The Boroughs and Districts have reported an underlying surplus for 2023/24 of £6.8m. This is unusually high and coupled with the large increase in the taxbase assumptions, the Council has taken the prudent decision to transfer the £10.6m difference to reserves to manage the potential for negative fluctuations in future years.

5.25 The position of the collection fund is determined by billing authorities (Boroughs and Districts) and is implicitly driven by both current positions and judgements about how prudent or optimistic their forecasting assumptions are in relation to their overall budget positions. As a precepting authority, Surrey County Council are required to use the forecasts adopted by the billing authorities. Such information is received too late in the budget setting process to enable robust analysis or testing of assumptions. The Council therefore takes a decision in respect of any collection fund equalisation

adjustments to ensure prudence in the budget and because where forecast are unusual there is a high possibility of a correction next financial year. Volatility in future collection fund figures is exacerbated by economic volatility and the cost of living crisis which could impact collection rates. The Council therefore uses the collection fund equalisation to smooth impacts and avoid significant year on year fluctuations.

**Table 4: Council Tax Requirement**

| Council Tax                             | 2022/23<br>£m | Change<br>£m | 2023/24<br>£m |
|---|---------------|--------------|---------------|
| Core council tax                        | 735.1         | 18.2         | 753.3         |
| ASC precept                             | 94.6          | 18.1         | 112.7         |
| <b>Council tax requirement</b>          | <b>829.7</b>  | <b>36.3</b>  | <b>866.0</b>  |
| Collection Fund surplus/ deficit (-)    | 2.8           | 4.0          | 6.8           |
| Collection Fund Equalisation Adjustment | (1.2)         | (9.4)        | (10.6)        |
| <b>Council Tax budget</b>               | <b>831.3</b>  | <b>30.9</b>  | <b>862.2</b>  |

5.26 The Council continues to work with the Borough and Districts to improve the information flow and enable more accurate forecasting of the taxbase and collection fund surplus/deficit at the draft budget stage, requesting information on multiple occasions throughout the year. A working group has recently been set up to specifically look at collection rates and this group will be utilised to help improve information sharing going forwards.

9

### **Business Rates funding £127.9m (Business rates £131m less collection fund deficit £3.1m)**

5.27 As part of the Local Government Finance Settlement, the Government confirmed there would be a freeze to the business rates multiplier to support businesses in the near-term, with compensation to local authorities for the freeze added to the grant for under-indexing the business rate multiplier. As such the business rates 'top-up' sees a small increase of from 2022/23, rising to £63.6m. The element of rates retained locally is budgeted at £46.5m; which is the same as the budget for 2022/23 (£46.5m).

5.28 In addition, 2022/23 includes the impact of the revaluation change. This relates to a package of reforms which supports the delivery of a three-yearly valuations cycle. Revaluations have previously been implemented in 1995, 2000, 2005, 2010 and 2017.

5.29 As with council tax, the Council also needs to consider the potential surplus or deficit relating to the actual collection of business rates when setting the budget. The business rates collection fund deficit comprises of:

- An estimate of the 2022/23 deficit (£1.7m); and
- One third of the 2020/21 'spreadable' deficit (£1.4m).

In total, the business rates deficit is expected to be £3.1m.

5.30 Some reliefs are compensated for by Central Government, £20.9m of compensation grant funding for business rates income has been assumed to offset that element of the collection fund deficit.

**Table 5: Business rates funding**

| Business Rates                       | 2022/23      | Change      | 2023/24      |
|--------------------------------------|--------------|-------------|--------------|
|                                      | £m           | £m          | £m           |
| Business rates income                | 109.6        | 0.5         | 110.1        |
| Business rates grants and reliefs    | 11.5         | 9.4         | 20.9         |
| Collection Fund surplus/ deficit (-) | (5.3)        | 2.2         | (3.1)        |
| <b>Business Rates budget</b>         | <b>115.8</b> | <b>12.1</b> | <b>127.9</b> |

## Grant funding £110.1m

5.31 All grant assumptions have been updated to reflect the information provided through the provisional Local Government Finance Settlement as well as other proposals and publications.

5.32 In total general **grants have increased by £18m** from 2022/23. The increase is broadly driven by:

- Increase in Social Care Grant, £21m (note this includes £1.6m previously shown within Adults Social Care as the Independent Living Grant)
- Other smaller Grant Movements, £1m; offset by
- Reduction in the Services Grant (£3.4m)
- Reduction in New Homes Bonus (£0.6m)

5.33 The **total £111.4m general grant funding included in the budget** includes the following main elements:

- Social Care Grant - £52.5m
- Public Health Grant - £40.8m (to be confirmed)
- PFI credit funding for Streetlighting - £6m
- Dedicated Schools Grant Funding for Council services £5.3m
- Services Grant - £4.5m
- New Homes Bonus and other minor grants £2.3m

## Overall Funding

5.34 The funding picture set out above results in overall funding as follows; with 2023/24 funding being £61.4m higher in total than 2022/23:

**Table 6: Projected Funding over the Medium-Term**

|                                       | 2022/23        | 2023/24        | 2024/25        | 2025/26        | 2026/27        | 2027/28        |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                                       | £m             | £m             | £m             | £m             | £m             | £m             |
| Council Tax                           | 829.7          | 866.0          | 882.9          | 907.7          | 933.6          | 960.3          |
| Business Rates                        | 121.1          | 131.0          | 132.3          | 167.1          | 135.1          | 103.6          |
| Grant Funding                         | 93.0           | 111.4          | 107.8          | 12.0           | 12.0           | 12.0           |
| <b>Funding before Collection Fund</b> | <b>1,043.8</b> | <b>1,108.4</b> | <b>1,123.1</b> | <b>1,086.8</b> | <b>1,080.7</b> | <b>1,075.9</b> |
| CT Collection Fund                    | 1.6            | (3.8)          | 2.6            | 2.6            | 2.7            | 2.8            |
| BR Collection Fund                    | (5.3)          | (3.1)          | (2.3)          | (2.3)          | (2.3)          | (2.3)          |
| <b>Total Funding</b>                  | <b>1,040.1</b> | <b>1,101.5</b> | <b>1,123.4</b> | <b>1,087.1</b> | <b>1,081.1</b> | <b>1,076.4</b> |

Section 8 sets out the main factors influencing medium-term funding projections.

## Reserves & Risk Mitigation Strategy

5.35 The Council is required to maintain an adequate level of reserves to deal with future forecast or unexpected pressures. 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 require authorities to have regard to the level of reserves to meet estimated future spend when calculating the budget requirement.

5.36 Reserves can be held for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;
- A contingency to cushion the impact of unexpected events or emergencies; and
- A means of building up funds (earmarked reserves) to meet known or predicted liabilities.

A summary of earmarked reserves and the forecast of reserves and balances can be found in **Annex D**.

5.37 The appropriate level of reserves needs to be considered alongside an assessment of the Council's risk environment. The higher the risk inherent in budget planning cycle, the higher the level of reserves needs to be in order to mitigate this risk. Therefore, an assessment of the risk environment is required in order to determine the suitability of the baseline reserves position, this assessment should include consideration of the robustness of efficiency plans, levels of uncertainty (demand / price), policy changes and wider national economic and political factors.

5.38 The budget proposes the following principles for the management of reserves:

- 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 (£8m) 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 MTFS period;
- Currently, General Fund and Earmarked reserves (excluding technical balances such as PFI sinking funds) stand at approximately £150m / 15% of the net budget.
- Reserves should not drop below 10% of the net budget.
- 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:
  - **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 from the current c15%, 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 budget contingency.
  - Unutilised risk contingency budget should first be used to ensure reserve levels are sustained, thereafter there is opportunity to invest in future years in strategic priorities, further transformation and/or service improvements (one-off costs). Any such investment should result in strengthening of the financial position, ie reducing risk or generating revenue efficiencies.
- 5.39 Given future funding uncertainty, retention of the Council’s reserves will be essential in order to mitigate risk and protect against unplanned pressures and/or the non-delivery of planned budget efficiencies.
- 5.40 The Council has traditionally maintained a low General Fund balance. Although there is no generally recognised official guidance on the level to be held, the level should be justifiable in the context of local and external economic factors, and that taxpayers’ money should not be tied up unnecessarily. The Council’s external auditor comments on the level of reserves as part of the annual audit of the Council’s Accounts.
- 5.41 In recent years a General Fund balance of between 2.0% to 2.8% (£20m to £28m) of net budget has been maintained. This level of General Fund balance is low by comparison to other authorities, and we have held an ambition to increase it over time. As part of the 2021/22 outturn proposals, the General Fund Balance was increased to £48m (4.6%).
- 5.42 The 2023/24 budget assumes no planned use of reserves or the General Fund balance other than those already approved.
- 5.43 For 2023/24, in addition to the £48m General Fund balance, we have also allowed for a £20m contingency as part of budget setting. While the contingency budget for 2022/23 may need to be utilised to cover the current forecast overspend in the current financial year, it is expected that the £38m of contingency brought forward from 2020/21 will not be required, giving a total contingency of £58m for 2023/24. The General Fund balance, in combination with the contingency (for general purpose use), will mean that there is £106m (9.6%) of cover to mitigate against future risk and uncertainties.
- 5.44 On the basis of the above the Section 151 Officer considers the 2023/24 Budget to be robust.

### **CIPFA Resilience Index Update**

- 5.45 The 2022/23 Budget and Medium-Term Financial Strategy to 2026/27 report to Council in February provided an update on the Council’s performance in the CIPFA resilience index, based on provisional 2020/21 data. CIPFA has now released the final data for 2020/21 which confirms the finding in February’s report, in particular showing improvements in reserves sustainability. The level of reserves held, compared to other authorities is low, however the index for 2020/21 was

significantly impacted by Covid-19 funding, which in many cases was received at the end of the financial year and contributed to reserves, resulting in some authorities showing significant increases in levels of reserves as at March 2021. Therefore, CIPFA recommends that it is viewed in the context of being a transitional year.

5.46 2021/22 data has recently been released. Initial analysis shows a further improvement in resilience, particularly in respect of retained reserves which were further contributed to as a result of the 2021/22 outturn position.

## **CIPFA FM Code of Practice**

5.47 CIPFA has developed the Financial Management Code (FM Code), designed to 'support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.'

5.48 It is for individual authorities to determine whether they meet the standards and to make any changes that may be required to ensure compliance. The 2021/22 financial year represented the first full year of code compliance. Officers carried out a review against the guidance and concluded that:

- the Council can demonstrate overall compliance with the standards;
- evidence could be strengthened for a small number of indicators; and
- there are several areas where, as a result of various changes over the past three years including the Finance Improvement Programme and the Finance Academy, the Council's arrangements exceed the standards.

5.49 The results of the Council's self-assessment against the Code are set out in Annex J, including areas where further development or improvement would be beneficial. The long-term sustainability of local services is an area identified for specific focus during 2023/24.

## **6. DRAFT CAPITAL PROGRAMME 2023/24 TO 2027/28**

### **Overview**

6.1 This section provides an update on the development of the Capital Programme for 2023/24 to 2027/28, taking into account work that has been carried out by officers and Cabinet Members over the last six months.

6.2 Over the last two years the Council's capital ambition and delivery has grown significantly. We continue to invest in the County, aligned to the corporate priorities of the Council and in the areas of most importance to our residents. In 2020, The Council declared a Climate Emergency as it recognises that environmental sustainability has to be at the core of what we do especially when delivering a Capital Programme of this size. Our aspirations in this space are high and we are continuing to work with external partners for innovative ways to deliver our green agenda, in a way which is affordable for our residents. We are also investing in other equally important priorities such as school places including for children with special educational needs and disabilities, infrastructure and Adult Social Care accommodation with care and support.

- 6.3 The Capital Programme planning process began in June this year, maintaining the trend of starting the process earlier each year as part of a continual drive to improve governance, deliverability and accountability in capital.
- 6.4 Governance of the Capital Programme is led by an officer-led Capital Programme Panel (CPP) and the three Strategic Capital Groups (SCGs) for Property, Infrastructure and IT with support from Finance and Members. The SCGs are tasked with developing the Capital Programme based on an asset planning approach to ensure that affordable, value for money capital solutions are identified to meet the needs of residents.
- 6.5 CPP provides additional assurance that capital plans fit in with corporate priorities and that deliverability and benefits can be achieved. In collaboration with Finance, the impact of the Capital Programme on financial resources is assessed with each new iteration to ensure it is sustainable, with particular focus on overall borrowing levels and borrowing costs in the medium to long term.
- 6.6 Officers work closely with Cabinet to shape the development of the Capital Programme. Cabinet approve the addition of new schemes, as well as transfers from the capital pipeline into budget, following the rigorous business case process. Assurance on the delivery of high priority schemes is also provided through the Major Projects Board as well as specific project boards for individual major schemes.
- 6.7 Governance structures, processes and procedures of the Capital Programme are continually assessed to strengthen financial management, decision making, and accountability. This includes internal audit, external reviews and work led by CPP and SCGs in collaboration with Finance.
- 6.8 Due to the growing size of the Capital Programme, additional work has been undertaken to assess the impact of borrowing costs on the revenue budget in the short, medium and long-term. As a result of this work the following have been used as the foundations for establishing the Draft Capital Programme:
- Clear identification and prioritisation of schemes that will be self-funded, with borrowing costs directly met from the operating model through income and efficiencies. These schemes are not a burden on the revenue budget;
  - Establishing a borrowing limit for schemes that will be funded centrally and setting out an improved framework to ensure prudent decisions are taken in the approval of capital schemes with “unfunded” borrowing, to prioritise those that provide the best value for money;
- 6.9 In addition to the above, Infrastructure and Property SCGs have set up Project Management Offices (PMOs) to further develop project management capacity and improve timely production of robust business cases for pipeline projects and accelerate the conversion of approved business cases to project delivery. The PMOs will also be key in benefit realisation and post completion reviews and will work collaboratively with the Benefits Board.
- 6.10 For commercial capital investments, the Member led Strategic Investment Board (SIB) monitors the Council’s investment properties and subsidiary companies to ensure satisfactory performance and effective risk management. The financial returns delivered by trading and investment help to ensure that we continue to deliver quality services to our residents.

- 6.11 SIB provides effective oversight, ensuring alignment with the strategic objectives and values of the Council. SIB safeguards the Council's interests and takes decisions in matters that require the approval of the Council as owner or as a shareholder of a company.
- 6.12 The Capital Programme is split between approved budget and capital pipeline. The pipeline allows the Council to reflect on ambitious spending plans providing a vision of the future to assess against emerging priorities and estimate potential impacts on the revenue budget, in particular borrowing costs. Pipeline schemes act as a placeholder for schemes in early stage of development which are moved into the approved budget only when their benefits and deliverability are adequately demonstrated to CPP and Cabinet.
- 6.13 Over the Summer, spending plans have been iterated and the SCGs have come forward with a refreshed set of proposals, which have been adapted to reflect priorities and available financial and operational resources. Each month CPP scrutinises the latest iteration with particular focus on deliverability (both in the programme itself and against the pipeline), benefits and funding assumptions, with particular focus on overall borrowing levels and borrowing costs.
- 6.14 A capital sub-group was established in October, consisting of members of the Council's Leaderships Team, Cabinet and Corporate Finance. This group was tasked with reviewing the capital bids to ensure appropriate prioritisation of schemes and affordability of the overall capital programme. The latest iteration of the Capital Programme is set out in the sections below.

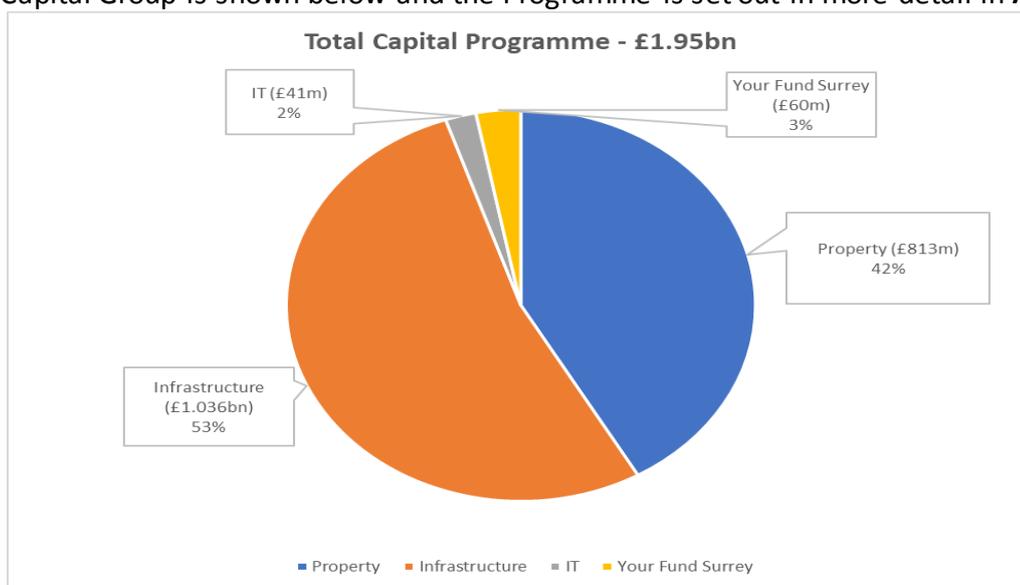
### **Capital Programme – MTFS Budget and Pipeline Summary**

- 6.15 The current programme was approved by Council in February, totalling c£1.9bn. In developing this programme, the Council carried out detailed modelling on the impact of the MTFS on borrowing costs and borrowing limits and ensured that revenue costs remained within the budget envelopes set out. This was achieved through a combination of refining the borrowing requirement for pipeline schemes and through identifying a number of schemes that will generate income or efficiencies sufficient to cover their borrowing costs. Self-funded schemes are scrutinised in detail at the business case stage and assessed during implementation and completion to provide assurance that benefits are realised and borrowing costs covered. When there is deviation, a governance framework exists to escalate and take action.
- 6.16 Where schemes do not generate sufficient income or efficiencies to cover borrowing costs, this borrowing is "unfunded" and the revenue costs are paid for centrally. Many schemes that have unfunded borrowing receive considerable match funding and are critical to improving infrastructure in the county, enabling the continuation of providing statutory services, improving services, and realising priorities such as climate change.
- 6.17 The modelling that was carried out when developing the current MTFS determined a limit on new unfunded borrowing of £40m from 2026/27 onwards, to keep borrowing costs within the revenue budget envelope. The programme for 2023/24 to 2027/28 has been developed in accordance with this affordability limit.
- 6.18 The challenge of developing an affordable capital programme that complies with this limit and effectively delivers Council priorities has grown, due to the impact of inflation driving up costs of delivery. Against this backdrop, SCGs and CPP have reviewed the appropriateness of budget allocations and challenged delivery plans, expenditure profiles and benefits of schemes.

Opportunities to utilise other sources of funding have been factored into the proposed budget e.g. grants and external contributions.

6.19 Uncertainty remains over the economic backdrop. Inflation remains at extremely high levels and a continued upward trend will drive up costs of scheme delivery. Uncertainty on the path of interest rates has increased significantly due to the possible risk of unknowns including further tax changes. The risk remains that interest rates will continue to increase thus putting further pressure on revenue financing costs that the Council will need to manage.

6.20 The proposed Capital Programme totals £1,950bn. This is split between a budget of £1,202bn and pipeline of £748m, including a £60m allocation for Your Fund Surrey (YFS). The composition by Strategic Capital Group is shown below and the Programme is set out in more detail in **Annex C**.



|                         | 2023/24 (£m) | 2024/25 (£m) | 2025/26 (£m) | 2026/27 (£m) | 2027/28 (£m) | MTFS Total (£m) |
|-------------------------|--------------|--------------|--------------|--------------|--------------|-----------------|
| <b>Property</b>         |              |              |              |              |              |                 |
| Budget                  | 117.5        | 213.2        | 120.3        | 51.1         | 68.5         | 570.5           |
| Pipeline                | 56.8         | 91.8         | 62.5         | 25.1         | 6.6          | 242.7           |
| <b>Total</b>            | <b>174.3</b> | <b>305.1</b> | <b>182.7</b> | <b>76.1</b>  | <b>75.1</b>  | <b>813.3</b>    |
| <b>Infrastructure</b>   |              |              |              |              |              |                 |
| Budget                  | 185.4        | 105.1        | 98.6         | 109.8        | 107.7        | 606.5           |
| Pipeline                | 35.5         | 110.9        | 136.5        | 115.3        | 31.0         | 429.2           |
| <b>Total</b>            | <b>220.9</b> | <b>215.9</b> | <b>235.1</b> | <b>225.1</b> | <b>138.7</b> | <b>1,035.7</b>  |
| <b>IT</b>               |              |              |              |              |              |                 |
| Budget                  | 5.8          | 11.0         | 3.5          | 3.4          | 1.6          | 25.4            |
| Pipeline                | 0.4          | 3.7          | 3.0          | 3.0          | 6.0          | 16.1            |
| <b>Total</b>            | <b>6.2</b>   | <b>14.7</b>  | <b>6.5</b>   | <b>6.4</b>   | <b>7.6</b>   | <b>41.4</b>     |
| <b>Your Fund Surrey</b> |              |              |              |              |              |                 |
| Budget                  | 15.0         | 15.0         | 15.0         | 15.0         | 0.0          | 60.0            |
| <b>Total</b>            | <b>308.7</b> | <b>329.3</b> | <b>222.4</b> | <b>164.3</b> | <b>177.8</b> | <b>1,202.4</b>  |
| <b>Total</b>            | <b>416.4</b> | <b>550.7</b> | <b>439.3</b> | <b>322.6</b> | <b>221.4</b> | <b>1,950.4</b>  |

|                      | 2023/24 (£m) | 2024/25 (£m) | 2025/26 (£m) | 2026/27 (£m) | 2027/28 (£m) | MTFS Total (£m) |
|----------------------|--------------|--------------|--------------|--------------|--------------|-----------------|
| <b>Financing</b>     |              |              |              |              |              |                 |
| Grant / Contribution | 144.8        | 153.2        | 174.3        | 109.9        | 74.5         | 656.9           |
| Receipts             | 41.4         | 20.0         | 13.3         | 1.5          | 0.0          | 76.2            |
| Revenue              | 6.9          | 6.4          | 5.9          | 5.9          | 5.8          | 30.8            |
| Funded Borrowing     | 51.5         | 109.2        | 52.0         | 40.1         | 20.5         | 273.3           |
| Unfunded Borrowing   | 171.7        | 261.8        | 193.8        | 165.3        | 120.5        | 913.2           |
| <b>Total</b>         | <b>416.4</b> | <b>550.7</b> | <b>439.3</b> | <b>322.6</b> | <b>221.4</b> | <b>1,950.4</b>  |

6.21 CPP ensures that the framework for setting the Capital Programme continues to focus on outcomes for residents, deliverability and affordability and contributes to the Community Vision for Surrey 2030 and aligning with the organisation’s priorities.

6.22 The Capital Programme contributes towards the delivery of the Council’s priority objectives as follows:

| Priority Objective         | Value of schemes in MTFS – Budget and Pipeline (£m) |
|----------------------------|---|
| Tackling health inequality | 367   |
| Enabling a greener future  | 678   |
| Empowering communities     | 98  |
| <b>Total</b>               | <b>1,144</b>  |

6.23 A further £806m of capital schemes contribute towards achieving service and organisation effectiveness.

9

**MTFS Capital Budget 2023/24 to 2027/28**

6.24 A total of c£1,202m of schemes are included in the proposed approved capital budget over the MTFS (excluding pipeline). Business cases for these well-developed schemes have been prepared and subjected to appropriate testing and scrutiny before being approved. The schemes will be monitored during the year for cost control, deliverability and to ensure budget estimates remain realistic over the period of the Capital Programme. Table 4 below shows a breakdown of budget schemes into the three SCGs over the MTFS period:

**Table 4: MTFS Draft Capital Budget by Strategic Capital Group (excluding pipeline):**

| Strategic Capital Group | MTFS Budget (£m) |
|-------------------------|------------------|
| Infrastructure          | 607              |
| Property                | 570              |
| IT                      | 25               |
| <b>Total Budget</b>     | <b>1,202</b>     |

6.25 These schemes deliver priorities across the county, including investment in schools, the transport network, flood alleviation, making the most efficient use of the corporate estate and providing support to vulnerable residents. The top 10 schemes in the Capital Programme (excluding pipeline) make up 74% of the total estimated budget:

# TOP 10 BUDGET SCHEMES (OVER 5 YEAR MTF5)

**£188m**  
**Highway Maintenance**  
 Improvements to roads and footways across the County



**£103m**  
**Schools Basic Need**  
 Increasing school places and building schools across the County



**£146m**  
**Surrey Flood Alleviation River Thames Scheme**



**£57m**  
**Schools Maintenance**  
 County wide schools maintenance programme



**£54m**  
**Bridge/Structures Maintenance**  
 Improvements and safety maintenance of specialist infrastructure



**£114m**  
**SEND Strategy (Phases 4)**  
 Increasing sufficiency of provision for special education needs and disability in schools across Surrey



**£38m**  
**A320 North of Woking and Junction 11 of M25**  
 Homes England grant funded road and junction improvements



**£67m**  
**SEND Strategy (Phases 1-3)**  
 Increasing sufficiency of provision for special education needs and disability in schools across Surrey

**£75m**  
**Property Maintenance**  
 County wide maintenance of service buildings, community facilities and offices



**£43m**  
**AP Strategy**  
 Investment in County PRU places and improvements for improved pupil support



## 2023/24 Capital Budget (excluding pipeline)

6.26 c£309m is provisionally included in the draft capital budget for 2023/24 as set out in the table, below. This will need to be thoroughly tested for deliverability prior to the final budget being approved but is consistent with the scale of forecast delivery for 2022/23:

**Table 5: 2023/24 Draft Capital Budget by Strategic Capital Group:**

| Strategic Capital Group | 2023/24 Budget (£m) |
|-------------------------|---------------------|
| Infrastructure          | 185                 |
| Property                | 118                 |
| IT                      | 6                   |
| <b>Total Budget</b>     | <b>309</b>          |

6.27 Successful delivery of the 2023/24 budget is a key part of ensuring the Capital Programme overall remains on course. Between now and the final capital budget being presented to Cabinet in January 2023, CPP will work with SCGs on the profiling of the draft budgets to ensure deliverability. The focus of the 2023/24 budget will be on the schemes that comprise the majority of forecast spend. The top 10 schemes account for 69% of the 2023/24 budget:

- £70m - Highway Maintenance – improvements to roads and footways across the County. This includes an element of planned acceleration of highways maintenance spend across 2022-24.
- £39m - SEND Strategy (Phases 1-3) – increasing sufficiency of provision for special education needs and disability in schools across Surrey
- £20m - A320 North of Woking and Junction 11 of M25 – Homes England grant funded road and junction improvements
- £16m - Ultra Low Emission Vehicles (Buses)
- £16m - SEND Strategy (Phase 4) – increasing sufficiency of provision for special education needs and disability in schools across Surrey
- £13m – Local Highways Schemes
- £11m - Bridge/Structures Maintenance – improvements and safety maintenance of specialist infrastructure
- £11m – Independent Living (Batch 1)
- £10m - Recurring Capital Maintenance Corporate (non-schools) – County wide maintenance of service buildings, community facilities and offices
- £8m – AP Strategy - investment in County PRU places and improvements for improved pupil support

### MTFS Pipeline Schemes 2023/24 to 2027/28

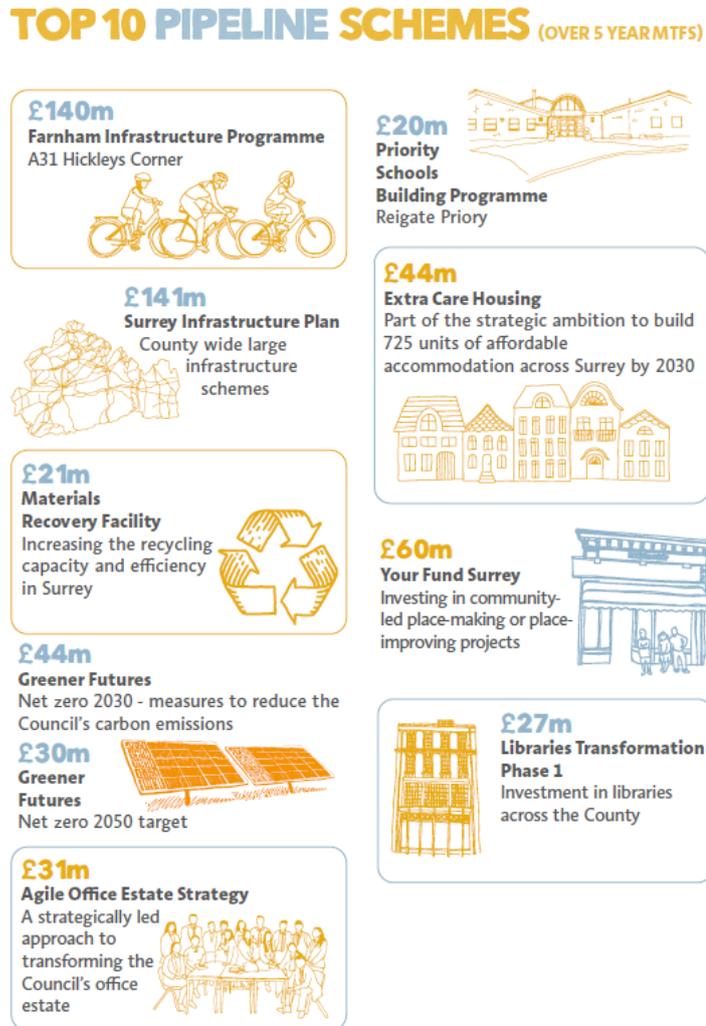
6.28 **Pipeline schemes** include proposals developed to a stage where they can be earmarked against a flexible funding allocation built into the wider Capital Programme. The pipeline allows projects to be approved during the year subject to business case approval. The SCGs have come forward with an ambitious set of proposals to support key strategic priorities and safeguard the future for Surrey residents. The table below shows a breakdown of pipeline schemes into the SCGs over the MTFS:

**Table 6: MTFS Draft Capital Pipeline by Strategic Capital Group:**

| Strategic Capital Group | MTFS Pipeline (£m) |
|-------------------------|--------------------|
| Infrastructure          | 429                |
| Property                | 243                |
| IT                      | 16                 |
| Your Fund Surrey        | 60                 |
| <b>Total Pipeline</b>   | <b>748</b>         |

6.29 The pipeline is key to the Council achieving its long-term objectives especially with regard to meeting climate change targets and to create a greener future for residents. Converting the pipeline into robust business cases that can be scrutinised for funding, deliverability and benefits through the existing governance framework is a priority for SCGs and CPP. The setup of the new PMOs in Property and Infrastructure is a direct response to increase pipeline conversion and deliver priorities.

6.30 The Council is committed to continue working with partners to unlock opportunities across the County, including large scale infrastructure projects to significantly improve transport links, unlock housing development for District and Borough partners and to regenerate towns and local economies. The top 10 pipeline schemes based on estimated spend over the MTFS period are shown below:



6.31 Of the total pipeline allocation in the MTFS, c.£312m or 42% is proposed for schemes that contribute to reducing carbon emissions, tackle climate change and enable a greener future for residents. A further £366m is included in the capital budget, bringing the total to c.£678m. The Council has brought in expertise to better understand and report on carbon impacts of the Capital Programme and to set established processes for assessing capital plans and capturing necessary information for business case scrutiny and benefits realisation.

6.32 All pipeline proposals are subject to ongoing development, scrutiny and challenge to ensure feasibility and deliverability before being approved to budget and confirmed into the Capital Programme.

6.33 The nature of the pipeline is to be a flexible portfolio of schemes that contribute to the Council's strategic objectives. As a result, SCGs may update the pipeline accordingly to adapt to changing circumstances, emerging priorities and financial constraints.

## 7. FINANCIAL PERFORMANCE 2022/23

- 7.1 The Month 8 Finance Update report is reported to the same Cabinet on 31st January 2023. Headline performance is set out below.
- 7.2 **Revenue:** As at November 2022 (M8) Directorates are projecting a full year £23m deficit, after taking into account £10.3m of budget recovery plans; The Directorate position is considerably more challenging than at the same point last year, recognising the challenge the economic climate and rising inflation has on the delivery of our services within available budget, in addition there has been significant additional demand in a number of service areas.
- 7.3 The current level of projected overspend is significant and it is imperative that this reduces before we reach the end of the year. Therefore, Cabinet agreed that concerted action needed to be taken to reduce the forecast position and are utilising £17m of the contingency budget to reduce the overall overspend to £6m.
- 7.4 The Council remains committed to budget accountability and the budget envelope approach and therefore Directorates which are currently forecasting an overspend position have committed to delivering a budget recovery plan, which requires the identification of targeted additional in-year efficiencies to mitigate the forecast overspend
- 7.5 **Capital:** The Council approved a capital budget for 2022/23 of £210.9m in February 2022, after adjustments for carry forwards and acceleration the current budget is £215.8m. The forecast at M8 is for full year spend of £212.4m, which is the net effect of acceleration in some areas and slippage against other schemes.
- 7.6 More information on the revenue and capital position can be found in the 2022/23 Month 8 (November) Financial Report to Cabinet on 31st January 2023.
- 7.7 Many of the factors impacting the 2022/23 expected outturn position for both revenue and capital will continue into 2023/24 and the medium term. Budget estimates for 2023/24 include the ongoing impact of Directorate variances from the current financial year, where they are expected to continue. Both the ongoing impact of inflationary pressures being felt this financial year and estimates of high inflation rates throughout 2023/24 are included in the starting point for 2023/24. Demand pressure trajectories have also been continued into 2023/24 in relation to those services experiencing pressures over and above the budget assumptions in 2022/23, specifically within adult social care and children's services. This provides confidence that the underlying budget, overall, is realistic and deliverable. These increased pressures significantly escalate the efficiency requirement in 2023/24.

## 8. MEDIUM TERM FINANCIAL OUTLOOK AND STRATEGY 2023/24 TO 2027/28

### Funding Context for the Medium-Term

- 8.1 Over the medium-term, the gap between expected Directorate spending pressures and projected funding grows significantly. By 2027/28, the Council will need to close a gap of c.£224m.

This is driven by:

- Growth pressures: including demand and inflation: c£360m;
- Increased borrowing costs of the capital programme: £40m;
- Offset by:
- An overall increase in funding: c£36m;
- Less efficiencies identified to date: c£140m.

8.2 Although our immediate priority is understandably closing the gap and setting a balanced budget for 2023/24; our medium-term focus means that transformation and service delivery plans are developing now, which already go a significant way to improving our medium-term financial outlook. These plans will iterate as funding projections gain more certainty. The gap increases steeply from 2025/26 reflecting the estimated impact of both Fair Funding Reforms and the delayed Adult Social Care Reforms.

**Table 7: MTFS Gap to 2027/28**

|  | 2023/24        | 2024/25        | 2025/26        | 2026/27        | 2027/28        | Total          |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
|  | £m             | £m             | £m             | £m             | £m             | £m             |
| Brought forward budget                           | 1,040.1        | 1,101.5        | 1,145.9        | 1,203.4        | 1,260.7        |                |
| Pressures  | 123.9          | 62.4           | 65.5           | 64.5           | 46.2           | <b>362.4</b>   |
| Increased borrowing costs of Capital Programme   | 6.8            | 11.6           | 9.6            | 7.6            | 4.6            | <b>40.2</b>    |
| Identified efficiencies                          | (69.3)         | (29.5)         | (17.6)         | (14.8)         | (9.0)          | <b>(140.3)</b> |
| <b>Total budget requirement</b>                  | <b>1,101.5</b> | <b>1,145.9</b> | <b>1,203.4</b> | <b>1,260.7</b> | <b>1,302.4</b> | <b>262.3</b>   |
| Change in net budget requirement                 | 61.4           | 44.4           | 57.5           | 57.3           | 41.8           | <b>262.3</b>   |
| <b>Opening funding</b>                           | 1,040.1        | 1,101.5        | 1,125.5        | 1,089.2        | 1,083.2        |                |
| Funding (reduction) / increase                   | 61.4           | 24.0           | (36.3)         | (6.0)          | (4.7)          | <b>38.4</b>    |
| <b>Funding for the Year</b>                      | <b>1,101.5</b> | <b>1,125.5</b> | <b>1,089.2</b> | <b>1,083.2</b> | <b>1,078.5</b> |                |
| <b>Overall Reductions still to find</b>          | <b>(0.0)</b>   | <b>20.4</b>    | <b>114.2</b>   | <b>177.5</b>   | <b>223.9</b>   |                |
| Year on Year Reductions still to find (at 1.99%) | (0.0)          | 20.4           | 93.8           | 63.3           | 46.5           | <b>223.9</b>   |

## Council Tax

8.3 The neutral medium-term scenario for Council tax has been modelled assuming a Core Council Tax rate increase of 1.99% beyond 2023/24, below the increased referendum limit. The variable used is the tax base which has been modelled at a 0.75% growth in 2024/25 and then 0.80% growth in 2025/26 increasing to 0.85% in 2026/27 and 2027/28.

8.4 No assumption is currently made beyond 2023/24 on the level of Adult Social Care precept.

8.5 It is important to note that the Council's main funding source is Council Tax. On average, this funds 80% of net revenue expenditure, the impact of the cost-of-living crisis on residents affecting their ability to pay Council Tax make this area particularly difficult to predict. Local Council Tax Support schemes provide some assistance, with increasing support here likely to result in a reduced tax base approved by district and boroughs.

## Local Government Reform (Fair Funding Review, Review of Relative Needs and Resources) & Business Rates Reset

8.6 The review of Local Government funding distribution, the Review of Relative Needs and Resources or Fair Funding Review (FFR), and a review of the Business Rates Retention system has been

delayed again. The Government has confirmed that this will now not be implemented in the current parliament / within this spending review period.

- 8.7 Confirmation over the timing of the reform is crucial to planning, not least because we anticipate the results will reduce our overall funding. We assume transitional arrangements will be put in place, so the pace of reduction is phased and the impact more manageable. Under normal circumstances officers would review technical working group papers as a highly effective means of keeping informed about the potential direction of reform. However, working groups which were previously developing the new system have been suspended and so the ability to gather any new and robust intelligence has been reduced. In addition, previous formulas and workings from the FFR relied heavily on 2011/12 data including on populations, which will be critically out of date if used without being updated.

## Business Rates

- 8.8 As set out in paragraph 8.6, the timing of Business Rate reform remains uncertain. Once implemented the Council is likely to see an initial increase to Business Rates retention and a decrease to grant income as grants (such as Public Health) will be 'rolled-in' to the Business Rates formula, along with the Business Rates Multiplier and Social Care grants. The level of Business Rates retained has a direct relationship with funding reform and as such we expect this funding to reduce over the remainder of the MTFS as transitional arrangements unwind.

- 8.9 For 2023/24 to 2024/25 an increase of 2% has been modelled, with the assumption some growth will occur through inflationary increases to the multiplier. Business Rates reform is then modelled from 2025 onwards.

## Grant income

- 8.10 The Autumn Statement and subsequent Local Government Finance Settlement provided some further indication of the level of grants that can be expected in 2024/25. The following assumptions have been factored into forecasts:

- Social Grant – a further increase anticipated in 2024/25 in line with announcements made in the Autumn Statement and confirmed in the LGFS.
- New Homes Bonus – Government have indicated a review of this source of funding will be carried out in 2023. It is considered likely that the Council's share will reduce or be removed altogether and therefore no further grant funding is assumed after 2023/24.
- Services Grant – this was announced as a one-off grant in 2022/23. While it has been extended (albeit at a reduced amount) into 2023/24, there is no indication from Government that it will continue beyond next financial year and therefore no further income has been assumed after 2023/24.
- Dedicated Schools Grant, expected to continue over the MTFS

- 8.11 From 2025 onwards, centrally held grants are reduced or eliminated altogether following the assumption of large-scale Business Rate reform.

## 9. DEDICATED SCHOOLS GRANT

- 9.1 The Council is required by law to formally approve the Total Schools Budget, which comprises: Dedicated Schools Grant funding and post 16 grant funding. This budget is used to fund schools' delegated and devolved expenditure and other maintained schools' expenditure, nursery

education provided by state schools and private providers plus expenditure on a range of school support services specified in legislation. The Total Schools Budget as presented here is shown both before and after subtracting funding allocated to individual academy schools which is deducted from the Council's Dedicated Schools Grant and paid directly to the academies by the government but is based on the funding formula and number of funded SEN places agreed by the Council.

- 9.2 The Total Schools Budget is a significant element of the proposed total budget for the CFLL Directorate. Table 8 outlines the proposed Total Schools Budget for 2023/24 of £1,135.5m including a planned overspend of £28m and £5.4m Education and Skills Funding Agency sixth form grant for school sixth forms. From this, an estimated £536.2m is paid directly by DfE to academies, leaving a net schools budget of £599.3m which is included within the Council's overall budget.

**Table 8 - Analysis of Total Schools Budget for 2023/24**

|  | Schools' & nurseries delegated budgets | Centrally managed budgets | Total          |
|--|--|---------------------------|----------------|
|  | £m                                     | £m                        | £m             |
| Gross DSG allocated to Surrey in 2023/24                               | 900.1                                  | 202.0                     | <b>1,102.1</b> |
| ESFA sixth form grant  | 5.4                                    |                           | <b>5.4</b>     |
| Anticipated DfE safety valve contribution                              |  | 12.0                      | <b>12.0</b>    |
| Planned overspend  |  | 16.0                      | <b>16.0</b>    |
| Total Schools Budget including funding allocated directly to academies | <b>905.5</b>                           | <b>230.0</b>              | <b>1,135.5</b> |
| less paid directly by DfE to academies and colleges (est)              | (536.2)                                |                           | <b>(536.2)</b> |
| <b>Net Schools Budget</b>  | <b>369.3</b>                           | <b>230.0</b>              | <b>599.3</b>   |

- 9.3 For this purpose, centrally managed services include the costs of:
- Placements for pupils with special educational needs in non-maintained special schools and independent schools;
  - Funding of state maintained special schools and SEN centres, other than place funding already agreed;
  - 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. Funding for private nursery providers counts as delegated.
- 9.4 Schools are funded through a formula based on pupil numbers and ages with weightings for special educational needs and deprivation. Cabinet considered and agreed a detailed report on the 2023/24 school funding formula on 29 November 2022. The funding rates for schools for 2023/24 will be subject to amendment by the Cabinet Member for Education and Learning and the Director of Education and Lifelong learning, to ensure affordability when all funding data for schools is known.
- 9.5 Schools will also receive pupil premium funding, based on the number of:

- Pupils receiving free school meals at some time in the past six years;
- Looked after children;
- Children adopted from care; and
- Pupils from service families (or who qualified as service children within the last six years, or in receipt of a war pension).

9.6 In 2023/24 Surrey mainstream schools and academies will also receive a new mainstream schools additional grant, estimated at £27m (including academies) which will be allocated directly to individual schools based on a formula set by DfE. In 2022/23 schools also received recovery premium and school led tutoring grant, both of which will continue into 2023/24. Schools also received a range of other grants for example to support infant free school meals and physical education and sport in primary schools. These grants have yet to be confirmed for 2023/24 at the end of December 2022.

### High Needs Block (HNB)

9.7 The HNB is an element of DSG used to support children with additional needs. Since changes in legislation around Local Authorities responsibilities were made in 2014, the rate of increase in demand has significantly outstripped increases in funding causing significant financial pressures in this area. The current position is set out in section 4.57 to 4.60.

9.8 In 2021 the DfE initiated a programme called “Safety Valve”, which aims to provide support to those councils with the highest percentage Dedicated Schools Grant deficits through Agreements that assure a timely return to financial sustainability.

9.9 The Safety Valve agreements all include commitments to enable a return to in-year balance including potential financial contributions from the DfE, local authority and other DSG blocks as well as additional capital investment (assessed through a parallel bidding process).

9.10 Five local authorities entered into agreements in the first round – Bury, Hammersmith and Fulham, Kingston upon Thames, Richmond upon Thames, and Stoke on Trent.

9.11 In November 2021 the DfE invited Surrey and a number of other local authorities to enter a second round of negotiations, and in March 2022 added safety valve agreements for Dorset, Hillingdon, Kirklees, Merton, Rotherham, Salford, South Gloucestershire, Surrey and York.

9.12 Surrey’s Safety Valve agreement includes additional DfE funding worth £100m over five years. At the end of 21/22 the cumulative outturn position on the High Needs block would have been a deficit of £118m, had it not been offset to a deficit of £78m, net of £40.5m DfE Safety Valve contribution.

9.13 The Council provides quarterly monitoring reports on the ‘safety valve’ agreement to the DfE which include performance indicators, financial projections and risk management. The 2022/23 Q1 & Q2 reports were approved by DfE and positive feedback was received. These each triggered instalments of £3m. The Q3 will be submitted in January. In 2022/23 the cumulative forecast position is just under £100m, net of an additional £12m DfE contribution.

- 9.14 The 2023/24 HNB budget includes another £12m DfE contribution as well as a 1% (c£8m) transfer from the Schools DSG block to the High Needs Block (subject to formal agreement by the Secretary of State).
- 9.15 Prior to the Safety Valve agreement, in order to best mitigate the HNB deficit liability, the Council was making a contribution from the General Fund to a separate off-setting reserve which matched the deficit on the HNB, ensuring stability in the balance sheet. In 2022/23 (prior to the agreement) a £27.2m contribution to the reserve from the general fund was budgeted to match the planned overspend.

The SV agreement means the reserve contribution budget in the GF has materially reduced to £5m in the 23/24 MTFs as the agreement removes the need for future contributions.

## 10. ENGAGEMENT AND CONSULTATION

- 10.1 In 2021, the council agreed a robust approach to consultation and engagement to inform setting the 2022- 23 budget, our medium-term financial strategy, and our next phase of transformation. Having previously undertaken an in-depth budget engagement exercise in 2018, this thorough, in-depth exercise in 2021 provides a strong foundation to shape budget decision making, meaning we could take a lighter touch approach to engagement over the next few years to continue validating the outcomes of this work.
- 10.2 Through September and October 2021 the council commissioned Lake Market Research to carry out in-depth research into Surrey residents' priorities for our budget. The aims of the exercise were to:
- a. Raise awareness with residents of the context we are working in, including local budget pressures, their views on the need to transform services, and new approaches to service delivery
  - b. Identify residents' informed spending preferences
  - c. Test spontaneous and informed attitudes towards service changes and residents' roles in supporting change – what would be acceptable, and what wouldn't be acceptable.
- 10.3 When presented with information about the council's financial context, residents expressed their surprise at the size of the efficiencies required and found it challenging to comprehend what the impact would be on residents if all departments were required to find efficiencies.
- 10.4 The services residents most wanted to protect from funding reductions were social care for those aged 65 and over followed by waste services, children's social care, education services, fire and rescue and social support services (such as services to support unpaid carers).
- 10.5 When residents were asked directly if they would agree with a 2% increase in Council Tax, over half (54%) thought it should not be increased and the required savings for 2022/23 should come from somewhere else. However, when asked if they would support an increase to protect the most vulnerable, 67% of respondents agreed with an increase under those circumstances. This was largely reflected in the findings of the 2022 budget consultation survey, indicating that the findings from 2021 research are still relevant in today's context.

10.6 When asked if they would support up to 2.5% increase in the Adult Social Care Levy to spend more on the care of the most vulnerable adults and older people, 57% said they would support this if the council decided to take up the option. Support was higher amongst residents aged 65 and over and residents with a disability.

10.7 Other themes emerging from the research were:

- a. Residents wanted the council to prioritise making efficiencies through better use of land and assets and by supporting local communities to be more involved in delivery
- b. Residents strongly supported investment in early intervention and prevention
- c. They expect services to join up more effectively throughout planning and delivery to strengthen the chances of improved outcomes
- d. They want the council to put residents most at risk of being left behind in Surrey at the heart of decision-making, such as people who are digitally excluded
- e. Residents are demanding a greater role in decision-making and delivery in their localities, accompanied with more community engagement
- f. They also want more practical guidance from authorities on changes they could make in their lives to make a difference to their local places and communities
- g. They want the council to lobby central government for further support to enable the county to achieve net zero by 2050.

10.8 We have taken opportunities in 2022 to build upon the 2021 engagement exercise. In May 2022, Lake Market Research undertook qualitative research to explore:

- Awareness of County Council responsibilities
- Factors that make a good place to live and what local area improvements they would like to see (generally / irrespective of who is responsible for their delivery)
- Services particularly important to resident households and in need of more support from Surrey County Council
- Top of mind reactions and importance of Surrey County Council's four strategic outcomes and their potential measurement

10.9 Three virtual focus groups were held with Surrey residents, with residents randomly sampled to take part via telephone interviews. Care was taken to obtain a mixed demographic profile in this research. Each group were split by age as follows with a mix of gender, working status and district / borough in each age group: aged 16-34, aged 35-54 and aged 55+.

10.10 In the study, residents expressed the value of healthcare accessibility, improvements to local town centres, access to green and open spaces, and the quality of service provision on their local areas. They also expressed considerable concern in regards to housing and planning and the importance of surrounding infrastructure, this was especially true for residents 55 and over who lived in rural areas. Another area of specific interest for residents was infrastructure and transport with residents aged 16-34 being more concerned about the frequency and cost of public transport and residents aged 35 and over being most concerned about road conditions and road user behaviour.

10.11 Residents were shown a list of areas that Surrey County Council is responsible for or has a role in delivering for the County. They were asked to think about which are particularly important to them and which need more support from Surrey County Council over the next few years. They highlighted:

- Making sure people get access to the services they need

- Helping people cope with the rising cost of living
- Community safety / managing crime / anti-social behaviour.

10.12 Additionally, in August 2022, a cost-of-living survey was asked of the Surrey Health and Wellbeing Panel. The panel consists of 2,000 residents, and there was a response rate of approximately 800 for this survey. The data was then weighted to be representative for the county based on age and gender.

10.13 The key findings show that while the majority of Surrey residents are not in crisis situations, they are beginning to make cutbacks. However, it is important to note that some residents are in crisis already and that we are likely to see greater impact on residents through the winter. This survey will therefore be repeated to see if there has been any change in resident experience. For further information, [Cost of Living Crisis Survey August 2022 | Tableau Public](#) contains the full results and graphs.

10.14 We have also taken the opportunity while shaping the 2023/24 Budget, to engage with members to get their views much earlier in the process than in previous years. An all-member briefing was held in June, the member Budget Task Group was held in July, September and November, and early engagement with Select Committees took place in July, and again in October, with further discussions taking place in December.

10.15 We have also been speaking to our staff about the current budget context and other strategic challenges. For example, the Leader and Chief Executive have been discussing this in their check-in and chat staff roadshows in October.

10.16 Engagement has continued with residents, businesses, district and borough councils, other public service partners and voluntary, community and faith sector organisations in November and December 2022. An open survey was launched alongside the publication of the draft budget and asked for views on the draft budget, how resources are proposed to be spent and the impact on residents and communities.

10.17 The survey asked how supportive respondents were of the proposed budget with 60.6% of respondents strongly supporting, somewhat supporting or feeling neutral. When asked for their preference on filling the budget gap in the absence of more government funding, 31% of respondents were in favour of additional council tax increase to fill the full budget gap (up to levels permitted by Government without a referendum), 23.7% were in favour of additional budget reductions that would likely have a detrimental impact on service delivery, 22.4% were in favour of additional council tax increased to fill part of the gap alongside some additional budget reductions that will impact council services, and 10.9% were in favour of increasing council tax beyond the threshold to fill the full budget gap and hold a referendum as required to do so. The full results from this can be found at Annex H.

10.18 A strong theme around the cost-of-living crisis was clear in responses opposing the increase in council tax with residents voicing concerns for the additional pressure on household finances posed by a potential rise in tax. However, there were also a large number of responses opposing further cuts to service budgets, particularly adult's and children's social care, and environment, transport and infrastructure. This indicates that, much like the findings of the 2021 engagement, despite worry around a rise in tax, many residents are willing to explore this as an option to fill the

budget gap in order to ensure essential services continue to run and the most vulnerable in Surrey are not subject to extensive service cuts.

10.19 Impacts of budget proposals, both positive and negative, are considered by services in a variety of ways, including through services' own consultation and engagement exercises and the use of Equality Impact Assessments (EIAs). EIAs are used to guide budget decisions and are outlined below in Section 11.

## 11. EQUALITY, DIVERSITY & INCLUSION

- 11.1 A high level Equality Impact Assessment (EIA) of the revenue efficiencies proposals and increase to council tax and adult social care precept has been undertaken and set out in Annex I. Full EIAs relating to specific efficiency proposals are signposted to on the Council's website through this document, reflecting their advanced stage of development. Further EIAs will be undertaken where appropriate before individual efficiency proposals are implemented. Members must read the full EIAs and take their findings into consideration when determining these proposals.
- 11.2 In this report, Members are being asked to agree the package of efficiency proposals to include in the final budget to enable closure of the 2023/24 budget gap, and at this stage are not being asked to agree to implementation of specific efficiency proposals before details, including EIAs, are finalised and presented for a final decision and scrutiny by the relevant Members and senior officers.
- 11.3 In considering the proposals in this report, Members are required to have 'due regard' to the objectives set out in Section 149 of the Equality Act (2010), i.e, the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it (Public Sector Equality Duty).
- 11.4 The protected characteristics as set out in the Equality Act (2010) are:
- Age
  - Disability
  - Gender reassignment
  - Pregnancy/maternity
  - Race
  - Religion or belief
  - Sex
  - Sexual orientation
  - Marriage and civil partnerships
- 11.5 At Surrey, we consider impacts not just on the nine protected characteristics, but also other vulnerable groups, for example, those at socio-economic disadvantage, Gypsy, Roma and Traveller communities, those experiencing homelessness, and so on, including those set out in the [Surrey Health and Well-being Strategy](#).
- 11.6 Having due regard does not necessarily require the achievement of all the aims set out in Section 149 of the Equality Act. Instead, it requires that Cabinet understand the consequences of the

decision for those with the relevant protected characteristics and consider these alongside other relevant factors when making the decision to pursue one course of action rather than an alternative that may have different consequences. The regard which is necessary will depend upon the circumstances of the decision in question and should be proportionate.

- 11.7 A review of the available EIAs, as well as potential impacts identified by officers as efficiencies are developed, shows groups with the potential to be affected by multiple changes by efficiencies in the 2023/24 budget are:
- Disabled adults, including those who have learning disabilities, and their carers
  - Children and young people, including those with additional needs and disabilities, and their families
  - Older adults and their carers
- 11.8 Mitigation strategies are in place to minimise the impact of efficiency projects on these groups. We will also ensure the effects of decisions and policies linked to this budget will be monitored as they are formulated and implemented and how we can support the most vulnerable residents to ensure that no-one is left behind.

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