



OFFICER REPORT TO COUNCIL

2023/24 FINAL BUDGET AND MEDIUM-TERM FINANCIAL STRATEGY TO 2027/28

KEY ISSUE/DECISION:

The Council has worked hard over recent years to improve its financial resilience and the financial management capabilities across the organisation. This has strengthened our position, compared with where we were in 2018.

Through hard work and diligent financial management, we have built a stronger financial base from which to deliver services. We have reduced our financial risk, delivered service improvement, ambitious investment and built back depleted reserves. We have continued to be responsible with taxpayer's money; minimising increases in Council Tax and delivering services in a more effective and efficient way, providing a stable platform to invest in the county's future, as well as enabling us to manage challenges and uncertainties, as evidenced throughout the pandemic.

However, the increased cost of living, global financial uncertainty and government policy changes, mean we will continue to face challenges to our financial position in the coming years. Our focus will continue to be on protecting service delivery, a continuation of the need to be forward looking in the medium term, as well as the delivery of the efficiencies required to achieve a balanced budget position each year. We are confident that our improved financial position and focus on budget accountability, provides a solid foundation for us to achieve this. We will concentrate on protecting our services to ensure our objective that no one in Surrey is left behind, can be fulfilled.

The Provisional Local Government Finance Settlement (LGFS) was released on 19 December, with a final settlement due in January 2023. The funding announced was better than 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 there remain difficult financial challenges for many local authorities.

To achieve a balanced budget, the final budget proposals include a recommendation to increase the Council Tax by 0.99% and raise an Adult Social Care Precept of 2%. 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 inflationary period. The budget restricts the increase to 2.99%, less than the 4.99% permitted by Government without recourse to a referendum.

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

Our continuing ambition to deliver for Surrey residents is most evident in our £1.9bn, 5-year capital programme to invest in the assets and infrastructure of the county, and our commitment to delivering the Community Vision for Surrey in 2030.

The budget gap is expected to continue to grow over the medium term financial strategy period. The Council recognised that tackling this gap will require a medium-term focus and a fundamentally different approach. We are focusing on the short term pressures in 2023/24, as well as looking to address the medium-term horizon. Cross-cutting Directorate transformation opportunities contribute to the efficiencies already identified in this proposed budget and work continues to identify additional areas of focus, including a planned organisational review.

We remain an ambitious and forward-looking organisation and we are optimistic about our ability to overcome these financial challenges. In recent years, the Council has established a strong track record of delivering efficiencies and transformation whilst maintaining a total focus on our financial management responsibilities.

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

BACKGROUND:

The production of the 2023/24 budget has been developed through an integrated approach across Corporate Strategy, Transformation and Finance, aligning revenue budgets, capital investment and transformation plans with each Directorate's service plans and the corporate priorities of the organisation. These are:

- Growing a sustainable economy so everyone can benefit
- Tackling health inequality

- Enabling a greener future
- Empowering communities

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 increased cost of living, the medium term ongoing impacts of the Covid-19 pandemic and wider local government policy pressures.

The overall outlook for 2023/24 is undoubtedly challenging, with budget envelopes in the key service areas increasing by 5.9% (£61.4m) in the face of substantially higher increases in the cost of maintaining current service provision. Despite an increase in projected funding, there remain challenges in managing growth in demand (particularly in Adult Social Care and Children's Services), inflationary pressures and the ongoing impact of Covid-19 within those envelopes.

RECOMMENDATIONS:

Following the Cabinet Meeting on 31 January 2023, the recommendations to Council on 7 February 2023 are:

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

1. The Deputy Chief Executive & Executive Director of Resources' (Section 151 Officer) conclusion that estimates included in the Final Budget Report and Medium-Term Financial Strategy are sufficiently robust in setting the budget for 2023/24; and
2. That it is the view of the Deputy Chief Executive & Executive Director of Resources (Section 151 Officer), that the level of reserves is adequate to meet the Council's needs for 2023/24. These reserves and contingencies include the following amounts, (totalling £106.0m) set aside specifically to provide financial resilience:
 - the General Fund (£48m).
 - Specific contingencies built into the 2023/24 budget (£20m); and
 - Unused contingency brought forward from previous years (at least £38m depending on 2022/23 outturn).

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

3. The net revenue budget requirement be set at £1,101.5 million (net cost of services after service specific government grants) for 2023/24 (Annex B), subject to confirmation of the Final Local Government Financial Settlement.
4. The total Council Tax Funding Requirement be set at £866.0 million for 2023/24. This is based on a council tax increase of 0.99% and an

increase of 2% in the precept proposed by Central Government to cover the growing cost of Adult Social Care (Annex E).

5. For the purpose of section 52ZB of the Local Government Finance Act 1992, the Council formally determines that the increase in core council tax is not such as to trigger a referendum (i.e. not greater than 3%).
6. Sets the Surrey County Council precept for Band D Council Tax at £1,675.08, which represents a 2.99% uplift. This is a rise of £0.94 a week from the 2022/23 precept of £1,626.39. This includes £217.94 for the Adult Social Care precept, which has increased by £32.46. A full list of bands is as follows:

**Council tax by valuation band
2023/24**

Valuation band	Core precept	ASC precept	Overall precept
A	£971.43	£145.29	£1,116.72
B	£1,133.33	£169.51	£1,302.84
C	£1,295.24	£193.72	£1,488.96
D	£1,457.14	£217.94	£1,675.08
E	£1,780.95	£266.37	£2,047.32
F	£2,104.76	£314.80	£2,419.56
G	£2,428.57	£363.23	£2,791.80
H	£2,914.28	£435.88	£3,350.16

7. Delegate powers to the Leader and Deputy Chief Executive & Director of Resources (Section 151 Officer) to finalise budget proposals and recommendations to County Council, updated to take into account new information in the Final Local Government Finance Settlement;
8. The Total Schools Budget of £599.3 million to meet the Council's statutory requirement on schools funding (as set out in Section 9 of the 2023/24 Final Budget and Medium-Term Financial Strategy to 2027/28).
9. The overall indicative Budget Envelopes for Executive Directorates and individual services for the 2023/24 budget (Annex B).
10. The total £1,950.4 million proposed five-year Capital Programme (comprising £1,202.4 million of budget and £748.0 million pipeline) and approves the £308.7 million Capital Budget in 2023/24 (Annex C).
11. The Council's refreshed Transformation Programme (as set out in section 3 of 2023/24 Final Budget Report and Medium-Term Financial Strategy to 2027/28):

Note that the investment in Transformation required to deliver improved outcomes and financial benefits is built into the proposed Medium-Term Financial Strategy (as set out in section 3 of 2023/24 Final Budget Report and Medium-Term Financial Strategy to 2027/28).

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

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

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

1. The Council has a legal requirement to set a balanced budget. We are not permitted to allow spend to exceed available resources which would result in an overall deficit. Sections 32 and 43 of the Local Government Finance Act 1992 also require authorities to have regard to the level of Reserves to meet estimated future spend when calculating the budget requirement. The Budget report has been drafted on the basis of this legislation.
2. The enclosed report sets out a balanced budget for 2023/24. Given the level of risk and uncertainty inherent in both the local authority environment and the national economic and political environment, coupled with ongoing uncertainty over future funding levels, retention of the Council's reserves will be essential, in order to provide financial resilience.
3. Section 25 of the Local Government Act 2003 requires the Section 151 Officer to report on:
 - a. the robustness of the estimates made for the purposes of the [budget] calculations; and
 - b. the adequacy of the proposed financial reserves.
4. The Section 151 Officer confirms that the Final Budget has been based on reasonable assumptions, taking into account all material, financial and business issues and risks at the time of preparation.
5. Section 5.33 of the 2023/24 Final Budget and Medium-Term Financial Strategy to 2027/28 sets out the level of key reserves and contingencies, **totalling £106m**:
 - General Fund (£48m).
 - Specific contingencies built into the 2023/24 budget (£20m); and
 - Unused contingency brought forward from previous years (c£38m depending on 2022/23 outturn).

6. The following principles for the overall management of reserves are proposed:
- Reserves should only be used to fund one-off or time-limited investment that will drive out efficiencies, deliver the capital programme or improve the delivery of services and council priorities;
 - Reserves cannot be used as a substitute for permanent efficiencies to meet permanent spending pressures;
 - Budgets such as the Transformation Fund (£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 MTF5 period;
 - Currently, General Fund and earmarked reserves (excluding technical balances such as PFI sinking funds and other reserves earmarked for specific purposes) stand at approximately £150m / 14% 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.

Lead/Contact Officers:

Leigh Whitehouse, Deputy Chief Executive and Executive Director of Resources

Joanna Killian, Chief Executive

Sources/background papers:

- [2023/24 Budget & Medium Term Financial Strategy to 2027/28](#), Report to Cabinet 31 January 2023
- [Organisation Strategy 2021 - 2026](#), Report to Council 8 December 2020
- [A Community Vision for Surrey in 2030](#), Report to Council 9 October 2018
- [Provisional Local Government Finance Settlement 19 December 2022](#)

Annexes:

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

Annex A – Pressures & Efficiencies

Annex B – Detailed Directorate Revenue Budgets

Annex C – Capital Budget 2023/24 – 2027/28

Annex D – Projected Earmarked Reserves & Balances

Annex E – Council Tax Requirement

Annex F – Capital, Investment & Treasury Management Strategy

Annex G – MRP Policy 2023/24

Annex H – Consultation Summary 2023/24

Annex I – EIAs for 23/24

Annex J – FM Code of Practice

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