

SURREY COUNTY COUNCIL**CABINET****DATE: 30 JANUARY 2024****REPORT OF CABINET MEMBER: TIM OLIVER, LEADER OF THE COUNCIL****LEAD OFFICER: LEIGH WHITEHOUSE, DEPUTY CHIEF EXECUTIVE & EXECUTIVE DIRECTOR RESOURCES (S151 OFFICER)****SUBJECT: 2024/25 FINAL BUDGET AND MEDIUM-TERM FINANCIAL STRATEGY TO 2028/29**

ORGANISATION STRATEGY PRIORITY AREA: NO ONE LEFT BEHIND / GROWING A SUSTAINABLE ECONOMY SO EVERYONE CAN BENEFIT / TACKLING HEALTH INEQUALITY / ENABLING A GREENER FUTURE / EMPOWERED AND THRIVING COMMUNITIES, HIGH PERFORMING COUNCIL

Purpose of the Report:

The Council has a statutory duty to set a balanced budget in advance of each financial year. The Final Budget for 2024/25 will be presented to Full Council on 6th February 2024. Cabinet is required to recommend a budget to Council for consideration at this meeting.

Key Messages:

A strong focus on financial accountability has enabled the Council to improve its financial resilience and the financial management capabilities across the organisation. This has provided a strengthened position, enabling the Council to be ambitious and look to continue to drive improvements and investment in our services.

However, we recognise that this financial year and the next 2-3 are likely to represent an extremely challenging period. Continued increasing demand for key services and high inflation means that the cost of delivering services is increasing at a faster rate than our funding.

The Provisional Local Government Finance Settlement (LGFS) was released on the 18th December 2023, with a final settlement due in February 2024. In the context of a series of S114 announcements, publicised issues with local government funding and extensive lobbying to the Treasury leading up to the announcements, there were positive indications that there would be some additional funding. This proved to not be the case and the provisional settlement is considered disappointing across the local government sector.

The majority of the 6.7% increase in Surrey's core spending power relates to an assumption of full utilisation of the council tax and adults social care precept levels, rather than additional funding from Government. The provisional settlement does

not go far enough in addressing the financial challenges local authorities continue to face.

The Council continues to lobby Government to make the case for additional funding. Public services have been under pressure years, further compounded by increased demands and the highest inflation in four decades. Based on indications given to date, the Council remains hopeful for a more favourable Final Local Government Finance Settlement (LGFS).

The Council also recognises the need to invest further in prevention activities. Prevention and early support are essential to our guiding mission of no one left behind and our Community Vision 2030. As a result, and in addition to the activities already included in the budget proposals, Cabinet is asked to approve the investment of a further £5m in targeted activities, specifically within childrens' services, with the confidence that doing so will have a positive impact on outcomes for families and children and in turn should lead to efficiencies for us and our partners, through reduced need for higher cost interventions.

This additional investment is intended to be funded from any additional funding announced as part of the Final LGFS. If additional funding is not forthcoming, then the Cabinet is asked to approve the use of earmarked reserves in order to ensure the required investment is made.

The final budget for 2024/25 proposes total funding of £1,197.1m; an increase of £94.9m from 2023/24. In order to achieve a balanced budget, it includes the following recommendations to full Council on Council Tax and the Adults Social Care Precept:

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

The increase in the total bill for a Band D property will equate to £1.61p 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 pressures.

Looking to the medium term, it is anticipated that this period of financial challenge for the council will persist, and without further action the budget gap is expected to continue to grow. The stability we have worked so hard to establish will not enable us to avoid difficult decisions but will allow us the time and space to make them in a considered and measured way. The council has a defined set of transformation and improvement plans with a clear focus on protecting and improving service delivery in the first instance, being realistic about our ambitions, underpinned by an earned confidence in our ability to deliver efficiencies. This will enable us to continue to deliver the Council's priorities, with a total focus on our financial management responsibilities, whilst delivering a stronger and more effective organisation.

Recommendations:

It is recommended that:

Cabinet recommends that Council:

1. Approves the net revenue budget requirement be set at **£1,197.1 million** (net cost of services after service specific government grants) for 2024/25 (Annex B), subject to confirmation of the Final Local Government Financial Settlement.
2. Approves the total Council Tax Funding Requirement be set at **£914.9 million** for 2024/25. This is based on a council tax increase of 4.99%, made up of an increase in the level of core council tax of 2.99% and an increase of 2% in the precept proposed by Central Government to cover the growing cost of Adult Social Care (Annex E).
3. Notes that 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%).
4. Sets the Surrey County Council precept for Band D Council Tax at £1,758.60, which represents a 4.99% uplift. This is a rise of £1.61 a week from the 2023/24 precept of £1,675.08. This includes £251.44 for the Adult Social Care precept, which has increased by £33.50. A full list of bands is as follows:

Valuation band	Core precept	ASC precept	Overall precept
A	£ 1,004.77	£ 167.63	£ 1,172.40
B	£ 1,172.24	£ 195.56	£ 1,367.80
C	£ 1,339.70	£ 223.50	£ 1,563.20
D	£ 1,507.16	£ 251.44	£ 1,758.60
E	£ 1,842.08	£ 307.32	£ 2,149.40
F	£ 2,177.01	£ 363.19	£ 2,540.20
G	£ 2,511.93	£ 419.07	£ 2,931.00
H	£ 3,014.32	£ 502.88	£ 3,517.20

5. Approves the use of £5m of earmarked reserves, to enable additional targeted preventative and early intervention investment in the event that the Final Local Government Finance Settlement does not provide any additional funding to that contained in the provisional settlement (paragraph 6).
6. Notes that underlying General Fund Balances are projected to remain at £49 million as of 1 April 2024.
7. Approves the Total Schools Budget of £656.7 million to meet the Council's statutory requirement on schools funding (as set out in Section 9 of the 2024/25 Final Budget and Medium-Term Financial Strategy to 2028/29).
8. Approves the overall indicative Budget Envelopes for Directorates and individual services for the 2024/25 budget (Annex B).

9. Approves the total £1,902.4 million proposed five-year Capital Programme (comprising £1,291.3 million of budget and £611.1 million pipeline) and approves the £404.9 million Capital Budget in 2024/25 (Annex C).
10. Approves the Capital and Investment Strategy (Annex F - Sections 1 to 3), 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.
11. Approves the policy for making a prudent level of revenue provision for the repayment of debt - the Minimum Revenue Provision (MRP) Policy (Annex G).
12. 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 2024/25 Final Budget Report and Medium-Term Financial Strategy to 2028/29).

Cabinet notes that the Audit & Governance Committee has approved the following at its meeting on the 17th January 2024:

13. Treasury Management Strategy and Prudential Indicators (Annex F – Section 4) which set a framework for the Council’s treasury function to manage risks, source borrowing and invest surplus cash.

Reason for Recommendations:

Council will meet on 6th February 2024 to agree a budget and to set the Council Tax Precept for 2024/25. Cabinet is required to recommend a budget to Council for consideration at this meeting. The budget directs available resources to support the achievement of the Council’s ambitions and priorities in the 2030 Vision and the Refreshed Organisation Strategy.

The budget will also support the delivery of the continuing transformational changes that are required to ensure that the Council can improve priority outcomes for residents, while managing growing demand for services and ensuring future financial sustainability.

Executive Summary:

1. The production of the 2024/25 budget has been developed through an integrated approach across Corporate Strategy, Transformation and Finance, ensuring that revenue budgets, capital investment and transformation plans are aligned with each of the Directorate’s service plans and the corporate priorities of the organisation. Ensuring that each aspect of planning for 2024/25 and the medium-term are aligned provides a stable foundation for delivering services to Surrey residents in the face of challenges presented by the increased cost-of-living, ongoing high inflation, continued increasing demand for vital services, the medium-term ongoing impacts of the Covid-19 pandemic and wider local government policy pressures.

Revenue

2. 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 that we have responsibility for, either in the short or medium term. Significant efficiencies have been identified in the budget proposals to enable a balanced position to be presented.
3. Despite the inflationary, cost and demand pressures being experienced, the Council remains committed to investing in service improvements. The budget proposals include revenue investment in a number of key improvement areas including:
 - significant investment in supporting and enhancing bus transport services with the introduction of a half price travel scheme and expansion of the digital demand responsive transport scheme.
 - supporting and enhancing highways and environment services, following a task and finish review undertaken by Cabinet earlier in the year, investment in a range of service improvements are proposed including refreshing road lines, additional investment in gulley cleaning, area stewards and grass-cutting.
 - Investment in preventative services including targeted early help and reunification of children back to their parental homes where safe to do so.
4. Prevention and early support are essential to our guiding mission of no one left behind and our Community Vision 2030. The budget proposals include significant existing investment in preventative services, including supported independent living, local early autism programme, the mental health improvement fund, the re-unification team and targeted early help and family support. It is estimated, based on current analysis, that by 2028/29 we will already be spending c£165m across all revenue budgets on preventative activity. In addition, £538m of preventative spend is planned in the Capital Programme over the next 5 years.
5. Cabinet is committed to continue to enhance our budget setting process and insight to support investment decisions for universal and targeted prevention, with the confidence that doing so will have a positive impact on outcomes for families and children and in turn should lead to efficiencies for us and our partners, through reduced need for higher cost interventions.
6. As a result of this commitment, additional investment of £5m is proposed, specifically relating to children's services, to invest in the following:
 - Additional capacity for Specialist Teachers in Inclusive Practice, to support schools to successfully meet the needs of more children at SEN Support.

- Integrate the Team Around the School service with the L-SPA as a single Early Intervention and Prevention Service area to continue to deliver and scale up the existing approaches to early support and intervention to education providers and families.
 - Provide additional social worker resourcing to the C-SPA to assist in the effective identification of levels of need and enable early intervention.
 - Permanent establishment of specialist practitioners within family safeguarding (focusing on drug and alcohol, mental health and domestic abuse) to strengthen our early help and prevention approach.
 - Provide ongoing funding for posts within the Children with disabilities service, providing support for the families and enabling children with complex needs to stay at home.
 - Increase Elective home education (EHE) capacity to meet the growth in numbers for EHE and Inclusion and Additional Needs (I&AN) work.
 - Staffing for additional quality assurance activities to meet new responsibilities and provide additional assurance about safeguarding risks to children placed in out of county residential settings.
 - Additional foster carer family support workers to enable foster carers to accept more children into placements and support children whose placements would otherwise be likely to breakdown.
 - Extend the work underway to review commissioning arrangements and key contracts.
 - Ongoing funding of additional Independent Reviewing Officers, continuing the positive impact on foster carer retention and placement stability.
7. This additional investment is intended to be financed from any additional funding as part of the Final LGFS. If additional funding is not forthcoming, then the Cabinet is asked to approve the use of earmarked reserves in order to ensure the required investment is made. The final funding source for this additional investment is dependent on the outcome of the Final LGFS and will be reported to Cabinet and included in the total budget figures as part of the first monitoring report of the new financial year.

Capital

8. Over recent years the Council's capital ambition and delivery has grown significantly. Our aspirations remain high and the Draft Capital Programme for 2024/25 – 2028/29 proposes ongoing investment in priority areas such as highways infrastructure, improving the condition of our property estate, creating additional school places including for children with special educational needs and disabilities, the green agenda, transforming our libraries and investing in adult social care accommodation with care and support.
9. Despite our continued ambitions, the economic environment has changed over recent years. High inflation is making delivery of capital schemes more

expensive and successive interest rate rises have increased the cost of financing borrowing. In order to sustain our financial resilience, we need to tighten up and re-set our capital expenditure approach, to ensure the affordability and sustainability of our capital programme in the medium term.

10. The challenge of developing an affordable capital programme that effectively delivers the Council priorities has grown. Over the summer, investment plans were robustly reviewed and schemes in the programme prioritised, re-scoped, removed or re-profiled to ensure that proposals best reflect the Council's priorities and are deliverable within available financial and operational resources. Opportunities to utilise other sources of funding have been factored into the proposed budget.
11. The Council remains committed to Your Fund Surrey (YFS), however in light of the need to prioritise capital investment and based on historic applications, the overall amount made available has been reduced. Significant investment of £40m has been made available for the 2023/24 – 2025/26 period to bring community-led place-making or place-improving projects to life at a scale to make a significant impact and deliver a real legacy in communities. This investment includes the Small Community Project Fund which allocates each Councillor £100k to support capital community projects.
12. Our residents understandably want us to continue to make improvements to our highways and road network. The proposed capital programme includes £32m of additional expenditure on roads, highways and flooding & drainage directly related to the conclusions and recommendations of a task and finish group, which worked to review service delivery and put in place both immediate actions where possible and further opportunities in which to invest that will result in noticeable improvements for residents.
13. In addition, the Leader made a commitment in March 2023 to continue the enhanced programme of investment in highways maintenance put in place in 2022 until 2025/26. The capital programme includes enhanced investment in our highways of £79m through the maintenance programme and local highways schemes in 2024/25 and 2025/26, in addition to the £60m already spent over the last three years, accelerating the benefits and improvement to the condition of the network. Through this enhanced programme, we have increased spending across road and pavement schemes, targeting maintenance improvement in residential and pedestrian areas in particular. We have delivered a number of preventative schemes sooner than planned, increasing the resilience of the network and putting us in a better position to be able to manage the impacts of climate change.
14. The enhanced programme includes an increase to the Councillor's individual highways allocation to £120k for 2024/25 and 2025/26 in recognition of the particularly high inflationary impact at this time and enabling Councillors to deliver a greater number of local priority schemes in addition to the main programme.

Medium Term Position

15. The budget gap is expected to continue to grow over the medium term financial strategy period, as demand and price pressures continue to exceed increases in funding. The funding position past 2024/25 is extremely uncertain.
16. Prospects for local government finance settlements in the next spending review period look very tight, with real-terms cuts anticipated for unprotected services, including most of local government.
17. The Government has confirmed that the review of Local Government funding distribution, the Review of Relative Needs and Resources or Fair Funding Review will now not be implemented in the current parliament. Given the upcoming General Election, current modelling assumptions use 2026/27 as the earliest possible opportunity for these changes to be implemented. Confirmation over the timing of the reform is crucial to planning, not least because we anticipate the results will reduce our overall funding.
18. The Council recognises that tackling this gap will require a medium-term focus and a fundamentally different approach which is why we are focusing not only on the short term pressures in 2024/25, but simultaneously looking to address the medium-term horizon.
19. Cabinet is required to consider and make recommendations to Council on:
- The Revenue and Capital Budgets for 2024/25, including efficiency proposals.
 - The Council Tax Precept level for 2024/25.
 - The Council's Capital Programme for 2024/25 - 2028/29.
 - The Council's Capital, Investment and Treasury Management Strategy, which provide an overview of how capital expenditure, capital financing and treasury management activity contribute to the delivery of our services and sustain our capital investments.
20. The budget decisions and attached 2024/25 Final Budget Report and Medium-Term Financial Strategy and supporting Annexes set out the context (both internal and external), approach and assumptions underpinning the development of the budget, supporting the priorities set out in the Council's Organisation Strategy.

Consultation:

21. Section 10 of the 2024/25 Final Budget Report and Medium-Term Financial Strategy to 2028/29 and Annex H attached to the report set out the consultation and engagement activity undertaken throughout 2023 as part of developing the budget, ensuring residents and stakeholders were able to inform the final budget.
22. The consultation and engagement process to inform the budget was divided into two phases:
- The first phase took place in the summer of 2023. Stakeholders were asked for their views on the priority outcomes the Council should be

focused on, how the organisation allocates its financial resources, preferred approaches to balancing the budget and circumstances under which a council tax increase would be supported.

- The second phase was a consultation on the draft budget agreed by the Cabinet on 28 November 2023. Stakeholders were asked whether they supported or opposed investment proposals and suggested measures for closing the 2024/25 draft budget gap of £13.5m.

23. Across both phases, over 2,700 stakeholders shared their views. Residents, in particular, were clear that they wanted the Council to use its budget to focus on improving roads and pavements, make communities safer, provide care for vulnerable adults and children, improve public transport and respond to the climate emergency. They were broadly supportive of the Council's investment priorities, though some division emerged over whether responding to the climate emergency was as significant a priority as the other service areas.

24. Most stakeholders wanted the Council to invest equitably across the county for services that benefit the majority of residents. They wanted closer collaboration between the Council, partners and residents to find ways to enable services to be more financially sustainable, and were opposed to measures, such as increasing fees and charges, to achieve sustainability.

25. Residents were most likely to support a council tax increase if this protected services to support Surrey's most vulnerable residents. They were least likely to support an increase as an alternative to increasing fees and charges for services that were previously free or subsidised.

26. Nearly two-thirds of respondents to the draft budget consultation supported the Council's suggested measures to close the budget gap for 2024/25. They recognised the need for effective financial management in challenging economic circumstances. Where the measures were opposed, respondents wanted the Council to do more to find financial efficiencies before increasing council tax or were concerned about the potential impact of service reductions on the most vulnerable residents.

27. Members have also been engaged extensively through the budget development process. Activity included informal and formal briefings of Select Committees, meetings of the Budget Task Group, all Member briefings and briefings for each of the political groups. Select Committee recommendations on the budget were considered and responded to by Cabinet at their meeting on 19 December 2023.

Risk Management and Implications:

28. The attached report and annexes have been prepared with a view to risk management from a financial, operational and reputational perspective. The financial risk implications are set out throughout Section 5 (Financial Strategy and Draft Budget 2024/25) of the attached document and exemplified in the S151 commentary below.

Financial and Value for Money Implications:

29. The attached report considers financial and value for money implications throughout and future budget reports will continue this focus.

Section 151 Officer Commentary:

30. 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.

31. The enclosed report sets out a balanced budget for 2024/25. 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.

32. Section 25 of the Local Government Act 2003 requires the Section 151 Officer to report on:

- the robustness of the estimates made for the purposes of the [budget] calculations; and
- the adequacy of the proposed financial reserves.

33. 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.

34. The formal Section 25 report on the adequacy of reserves will be included in the 2024/25 Final Budget and Medium-Term Financial Strategy to 2028/29 report to Council on the 6th February 2024.

35. Section 5.42 of the 2024/25 Final Budget and Medium-Term Financial Strategy to 2028/29 sets out the level of key reserves and contingencies, **totalling £107m**:

- General Fund (£49m).
- Specific contingencies built into the 2024/25 budget (£20m); and
- Unused contingency brought forward from previous years (c£38m depending on 2023/24 outturn).

36. 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 MTFS 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 c14%, 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.

Legal Implications – Monitoring Officer:

37. Whilst the Cabinet is being asked to recommend, and subsequently the Council asked to agree, the revenue budget and capital programme, the budget decision does not constitute final approval of policies, or the sums of money to be saved under the service proposals except for those areas where there is a specific recommendation being made.
38. The revenue budget and capital programme recommendations in the report do not commit the Council to implement any specific efficiency proposal. When the Cabinet comes to make specific decisions on efficiencies, where necessary, focussed consultations and the full equality implications of doing one thing rather than another will be considered in appropriate detail. If it is considered necessary, in light of equality or other considerations, it will be open to those taking the decisions to spend more on one activity and less on another within the overall resources available to the Council.

Equalities and Diversity:

39. A comprehensive review of Equalities and Diversity was undertaken and is referred to in Section 11 of the attached Report and Annex I.

What Happens Next:

40. Cabinet is requested to consider and agree the recommendations 1- 13 as set out above and recommend to Council on 6th February 2024 for approval.

41. Pending agreement, the Final Budget and Medium Term Financial Strategy will be communicated to residents, staff, partners and other key stakeholders.

42. The refreshed Transformation Programme will be led and delivered by the respective Cabinet Members and Executive Directors, with all decisions in relation to specific constituent programmes and projects continuing to be subject to consultation and decision-making protocols in line with the Council's Constitution and Scheme of Delegation.

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Consulted:

Cabinet, Executive Directors, Heads of Service

Annexes:

2024/25 Final Budget and Medium-Term Financial Strategy to 2028/29

Annex A – Pressures and Efficiencies 2024/25

Annex B – Detailed Revenue Budget 2024/25

Annex C – Capital Budget 2024/25 - 2028/29

Annex D – Projected Earmarked Reserves and Balances

Annex E – Council Tax Requirement

Annex F – Capital, Investment and Treasury Management Strategy 2024/25

Annex G - Minimum Revenue Provision (MRP) Policy 2024/25

Annex H – Consultation Summary for 2024/25 Budget

Annex I – Equalities Impact Assessment for 2024/25 Budget

Annex J – Financial Management Code of Practice Assessment

Sources/background papers:

- [Provisional Local Government Finance Settlement 18 December 2023](#)

- [Draft Budget 2024/25 and Medium Term Financial Strategy to 2028/29 \(Cabinet 28th November 2023\)](#)
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