

## SURREY COUNTY COUNCIL

## CABINET

DATE: 22 JULY 2025



REPORT OF CABINET MEMBER: CLLR DAVID LEWIS, CABINET MEMBER FOR FINANCE AND RESOURCES

LEAD OFFICER: ANDY BROWN, DEPUTY CHIEF EXECUTIVE &amp; EXECUTIVE DIRECTOR OF RESOURCES (\$151 OFFICER)

SUBJECT: 2025/26 MONTH 2 (MAY) FINANCIAL REPORT

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

<b>Purpose of the Report:</b>
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This report provides details of the Council's 2025/26 financial position, for revenue and capital budgets, including transformation, as at 31<sup>st</sup> May (M2) and the expected outlook for the remainder of the financial year.

**Key Messages –****Revenue**

- On 4th February 2025, Council approved a revenue budget of £1,264.1m. The Council papers referenced a small amount of additional funding which had recently been announced by Government through the Final Local Government Finance Settlement (LGFS) which provided details of the Council's specific funding allocations. In addition, confirmation of the Public Health Grant for 2025/26 was announced in April 2025. Cabinet is asked to approve an increase to the Council's revenue budget to £1,274.6m for 2025/26.
- **At M2, the Council is forecasting an overspend of £3.6m against the 2025/26 revenue budget.** The details are shown in Annex 1 and summarised in Table 1 (paragraph 1 below). The position continues to reflect that local government continues to work in a challenging environment of sustained and significant pressures.
- **Directorates are working on developing mitigating actions to offset forecast overspends** and deliver services within available budgets.

**Capital**

- In February 2025 Council approved a capital budget of £344m for 2025/26.
- Capital Programme Panel, working alongside Strategic Capital Groups, has validated the delivery of the capital programme, taking into account historic

experience in relation to slippage, procurement, planning and supply network timeframes.

- It is recommended that the capital programme for 2025/26 is re-phased and a re-set budget of £346.5m be approved by Cabinet for 2025/26 (paragraphs 14-17).

### **Recommendations:**

It is recommended that Cabinet:

1. Approves the increase in the net revenue budget to £1,274.6m due to the funding announced as part of the Final Local Government Finance Settlement (paragraphs 1-2).
2. Approves the re-set of the capital budget for 2025/26 to £346.5m (paragraphs 14-17), including an increase of £4.1m relating to additional grant income for highways maintenance and the Surrey Quality Bus Corridor Improvement.
3. Notes the Council's forecast revenue budget and capital budget positions for the year.
4. Notes the risks and opportunities identified in relation to the Council's budget position for the year.
5. Approves the allocation of £4.05m from the Your Fund Surrey capital allocation for 2025/26, to extend the small fund scheme, allocating £50k to each Councillor (para 18).

### **Reason for Recommendations:**

This report complies with the agreed policy of providing a monthly budget monitoring report to Cabinet for information and for approval of any necessary actions.

### **Executive Summary:**

1. On 4 February 2025, Council approved a revenue budget of £1,264.1m. The Council papers referenced the potential for changes to the funding, as a result of the Final Local Government Finance Settlement (LGFS). Details of specific allocations were not available until after the publication of the Council Papers.
2. Cabinet is now asked to approve an increase in the revenue budget to £1,274.6m, in relation to the following:
  - £1.6m - additional funding announced in the Final LGFS
  - £2.5m – additional Public Health Grant announced in April '25
  - £6.4m – move the grant received to compensate the Council for increases in the cost of its own direct National Insurance costs from Central Income & Expenditure to General Funding, to reflect that Government is including this funding as part of Core Spending Power calculations.

The increase will impact on the following Directorate budgets:

- £2.5m increase in Adults, Wellbeing & Health Partnerships, for the public health grant increase.
- £1.3m increase in Children's, Families & Lifelong Learning to allocate Children's Prevention Grant funding.
- £0.5m increase in Place to reflect the Council decision to remove efficiencies relating to Greener Futures
- £6.2m movement between Central Income & Expenditure and Corporate Funding to reclassify the National Insurance Compensation Grant.

### Revenue position

3. At M2, the Council is forecasting a full year overspend of £3.6m against the revenue budget. This is a £0.6m deterioration from the early forecast position in Month 1. Table 1 below shows the forecast revenue budget outturn for the year by Directorate (further details are set out in Annex 1):

Table 1 - Summary revenue budget forecast variances as at 31<sup>st</sup> May 2025

	M2 Forecast £m	Annual Budget £m	Forecast Variance £m
Adults, Wellbeing & Health Partnerships	528.6	528.5	0.0
Children, Families and Lifelong Learning	318.4	318.4	0.0
Place	169.5	169.4	0.0
Community Protection & Emergencies	46.2	45.6	0.6
Resources	113.1	110.1	3.0
Central Income & Expenditure	102.5	102.5	0.0
Directorate position	1,278.2	1,274.6	3.6
Council Tax	(977.7)	(977.7)	0.0
Business Rates	(148.3)	(148.3)	0.0
Government Grants	(148.6)	(148.6)	0.0
Overall	3.6	0.0	3.6

4. The forecast overspend relates primarily to the following:

- Resources Directorate – forecast overspend of £3m

The overspend position relates to the Land & Property Service and is due to several factors, including delayed or unachieved prior year efficiency targets relating to the agile programme (£0.5m), previous years' operational asset rationalisation efficiency targets (£1.3m), reduced rental income following decisions on service occupancy (£0.5m) and pressures on the agile programme budget due to delays as funding was used to offset continued office running costs in previous years (£0.5m). The service has set challenging targets to reduce facilities management spend and is looking for opportunities to rationalise assets.

- Community Protection & Emergencies – forecast overspend of £0.6m

The forecast overspend is mainly due to staffing pressures and contingency crewing contract costs within the Fire Service, partially offset by efficiencies generated through a joint fire control arrangement with other fire authorities.

## Risks and Opportunities

5. In addition to the forecast overspend position, emerging risks and opportunities are monitored throughout the year. Directorates have additionally identified weighted risks of £23.1m. These figures represent the weighted risks and opportunities taking into account the full value of the potential risk or opportunity, adjusted for assessed likelihood of the risk occurring or opportunity being realised.
6. Directorates are expected to take action to mitigate these risks and maximise the opportunities available to offset them, to avoid these resulting in additional forecast overspend.

## Efficiencies

7. The 2025/26 budget, approved in February 2025, included £66.4m of targeted efficiencies. At the end of May 2025, £46m (69.3%) are either achieved or projected to be on-track to be achievable. £12.8m (19.3%) are considered deliverable once outstanding actions have been resolved, £7.2m (10.8%) are considered doubtful or at risk of delivery and £0.4m (0.6%) are currently rated as unachievable.
8. The £0.4m of planned efficiencies which are now flagged as unachievable, relate to the following:
  - a £0.4m shortfall against the £8.6m target set in Adults Social Care in relation to demand management actions taken in 2024/25. The underachievement on this efficiency is being offset by £2.9m of overachievement against other Adult Social Care efficiency targets
  - £0.07m of efficiencies, within the Resources Directorate, due to a decision to not proceed with the planned review of the Archaeology Service.
9. Offsetting the underachievement is £2.9m of over-achievement against Adults Social Care targets.

## Dedicated Schools Grant (DSG) update

10. The table below shows the projected forecast year-end outturn for the High Needs Block.

Table 3 - DSG HNB Summary

2025/26 DSG HNB Summary	* Budget incl Safety Valve overspend £m	Outturn £m	Variance to budget £m
Education and Lifelong Learning	253.8	289.6	35.8
External Place Funding	27.0	27.0	0
Children's Services	2.3	2.3	0
Corporate Funding	2.0	2.0	0
<b>TOTAL</b>	<b>285.1</b>	<b>320.9</b>	<b>35.8</b>

FUNDING	-241.1	-241.1	0.0
<b>*In-Year Deficit</b>	<b>44.0</b>	<b>79.8</b>	<b>35.8</b>

\*The Budget includes £9m Safety Valve contribution, £9m schools block transfer and planned £26m overspend.

11. The Council remained within the Safety Valve spending profile for the first two years of the programme. However, significant recovery work in completing outstanding Education Health and Care Plan (EHCP) backlogs and transition reviews in the early part of 2024/25 highlighted that the ambitious budget reductions in the initial safety valve programme were under pressure, with a significant negative movement at the close of 2024/25 and pressure on spend with volume increases continuing to outstrip the comprehensive cost containment work taking place. Additional state funded places through the Department for Education (DfE) Free Schools programme have been significantly delayed in becoming available, whilst costs and demand have grown at a faster rate than in the original assumptions, far exceeding grant allocations.
12. The current forecast is showing that pressure is emerging in all areas of the high needs budget, with the costs and demand for places across all provisions showing increased numbers. Costs are increasing due to the shortage of availability of specialist placements as well as increased costs and need in support for children in mainstream provision. Whilst we can see significant investment in in-house specialist placements, it is taking time for the costs of independent provision to come down as there is still a need to commission new places to meet specialist demand. The cumulative deficit as at 31 March 2025 was £141.9m. The Council holds an offsetting earmarked reserve of £144m.
13. To date, the Council has received £82m in Safety Valve payments (82% of the total DfE contributions) with the remaining £18m due to be paid over the next two years, in equal sums of £9m per year. Our first Safety Valve monitoring report for 2025/26 delivered in April highlighted the continual growth in demand and the movement away from the original delivery targets, highlighting that the Council is no longer on track to meet the original target of balancing the Dedicated School Grant (DSG) by 2026/27. A formal request had been made to extend the timeline of delivery, extending the programme until the end of 2030/31. However, it has been confirmed that the DfE will not be looking to extend agreements beyond the current terms and further announcements would be part of anticipated Special Education Needs Reforms.

## Capital

14. In February 2025, Council approved a capital programme of £344m. Since sign off the budget, the Capital Budget for 2025/26 has increased to £387.3m as the result of £17.7m of carry-forwards, approved as part of the 2024/25 Outturn Report, and £25.6m of new approvals (transfers from the pipeline or additional grant funded activity), approved by Capital Programme Panel and/or Cabinet.
15. Capital Programme Panel, working alongside Strategic Capital Groups, has validated the delivery of the capital programme, resulting a net proposed

reduction in the 2025/26 budget of £44.9m. This represents re-profiling of budgets into future financial years and is not a reduction in the approved capital programme. The re-set includes a proposed increase to the highways maintenance budget of £14.7m, re-profiling budget from the 2026/27 allocation.

16. An additional £4.1m is requested to be approved to be added to the following existing schemes to reflect additional grant received - £3m for Highways Maintenance and £1.1m for Surrey Quality Bus Corridor Improvement

17. Cabinet is asked to re-set the 2025/26 budget to £346.5m, as set out in the table below.

Table 4 – Capital Programme re-set

Strategic Capital Groups	25/26 budget approved in Feb 25	Acceleration / carry forwards	Approved additions*	Re-set	Additional Grant, requiring approval	25/26 reprofile d budget
	£m	£m	£m	£m	£m	£m
<b>Property</b>						
Property Schemes	166.9	2.5	6.2	(42.3)	-	133.2
ASC Schemes	1.5	0.1	-	0.0	-	1.6
CFLC Schemes	1.9	0.7	-	0.6	-	3.2
<b>Property Total</b>	<b>170.3</b>	<b>3.4</b>	<b>6.2</b>	<b>(41.7)</b>	<b>-</b>	<b>138.0</b>
<b>Infrastructure</b>						
Highways and Transport	115.4	(3.3)	7.3	9.7	4.1	133.3
Infrastructure and Major Projects	38.2	11.5	7.9	(12.7)	-	44.9
Environment	6.7	1.3	2.8	0.1	-	10.8
Surrey Fire and Rescue	6.3	0.5	1.4	1.5	-	9.7
<b>Infrastructure Total</b>	<b>166.6</b>	<b>10.0</b>	<b>19.5</b>	<b>(1.6)</b>	<b>4.1</b>	<b>198.6</b>
<b>IT</b>						
IT Service Schemes	2.9	4.3	-	(1.7)	-	5.6
<b>IT Total</b>	<b>2.9</b>	<b>4.3</b>	<b>-</b>	<b>(1.7)</b>	<b>-</b>	<b>5.6</b>
<b>Commercial</b>						
Commercial Schemes	4.2	-	-	-	-	4.2
<b>Commercial Total</b>	<b>4.2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4.2</b>
<b>Total Budget</b>	<b>344.0</b>	<b>17.7</b>	<b>25.6</b>	<b>(44.9)</b>	<b>4.1</b>	<b>346.5</b>

## Your Fund Surrey

18. The capital pipeline budget includes £24.6m for Your Fund Surrey for 2025/26, of which £10.9m is already committed. It is proposed that the YFS Small Fund is continued, allocating £4.05m of the remaining YFS pipeline budget to extend the programme. This makes available an additional £50,000 to each Councillor, aimed to enable them to support capital projects in their local community. A whole range of projects have been funded from this scheme to date, including refurbishment of village halls, new pathways, community gardens and improved playground facilities.

## 2026/27 Budget Planning

19. Work is underway on the budget planning process for 2026/27 for both revenue and capital. The budget is set in the context of continuing substantial demand for

vital services, limited financial resources, Fair Funding Reform and Local Government Reorganisation.

20. The challenge to set a balanced budget will be significant. Government funding is likely to reduce, as a result of Fair Funding Reform, meaning the Council's reliance on Council Tax as the primary source of income will increase. The recent Spending Review confirmed that Government's expectation is full council tax rises to ensure funding levels.
21. When the budget was approved in February 2025, there was a forecast gap in the Medium Term Financial Strategy for 2026/27 of £28m. Whilst work is ongoing to update and understand the position, there will be an increasing need to continue to deliver significant efficiencies in 2026/27, as has been the case throughout the last decade.
22. The Cabinet, in putting together proposals for a balanced 2026/27 budget, is focused on prioritising and protecting front line service delivery whilst ensuring there is a commitment to delivering efficiencies and reducing costs to become a more streamlined organisation, in what will be the last financial year of the council.

#### **Consultation:**

23. Executive Directors and Cabinet Members have confirmed the forecast outturns for their revenue and capital budgets.

#### **Risk Management and Implications:**

24. Risk implications are stated throughout the report and each relevant director or head of service has updated their strategic and or service risk registers accordingly. In addition, the Corporate Risk Register continues to reflect the increasing uncertainty of future funding likely to be allocated to the Council and the sustainability of the Medium-Term Financial Strategy. In the light of the financial risks faced by the Council, the Leadership Risk Register will be reviewed to increase confidence in Directorate plans to mitigate the risks and issues.

#### **Financial and Value for Money Implications:**

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

#### **Section 151 Officer Commentary:**

26. Surrey County Council, like all local authorities, continues to operate in a very challenging financial environment, with significant budgetary pressures and future funding uncertainty. Despite coming from a position of strong financial resilience, the Council is not immune to the impact of increasing demand and costs of service delivery. The Council has a duty to ensure its expenditure does not exceed the resources available and therefore it is vital that we continue to place significant importance on financial management, the delivery of efficiencies and

reducing spending, to protect service delivery and achieve a balanced budget position each year.

27. In addition to delivering services within a balanced budget, the Council needs to consider the medium-term financial outlook beyond 2025/26. With little clarity on the Council's funding in the medium term, our working assumption is that financial resources will continue to be constrained. This, coupled with the impact of Local Government Reorganisation, places an onus on the Council to continue to consider issues of medium term financial sustainability as a priority, in order to ensure the stable provision of services both for the remaining term of Surrey County Council and that of future unitary authorities into the medium term.

28. The financial information presented in this report is consistent with the Council's general accounting ledger and forecasts have been based on reasonable assumptions, taking into account all material, financial and business issues and risks.

#### **Legal Implications – Monitoring Officer:**

23. The Council is under a duty to set a balanced and sustainable budget. Members need to be reasonably satisfied that expenditure is being contained within budget and that the savings for the financial year will be achieved, to ensure that income and expenditure balance as set out in Section 28 of the Local Government Act 2003.

24. Cabinet should be aware that if the Section 151 Officer, at any time, is not satisfied that appropriate strategies and controls are in place to manage expenditure within the in-year budget they must formally draw this to the attention of the Cabinet and Council and they must take immediate steps to ensure a balanced in-year budget, whilst complying with its statutory and common law duties.

#### **Workforce Implications – Direct of People and Change:**

29. Staffing implications of the budget position were set out in Medium Term Financial Strategy, which was approved by Full Council in February 2025. Ongoing staffing implications are monitored alongside the budget monitoring position and set out in the reasons for forecast variances, where necessary.

#### **Equalities and Diversity:**

30. Any impacts of the budget monitoring actions will be evaluated by the individual services as they implement the management actions necessary. In implementing individual management actions, the Council must comply with the Public Sector Equality Duty in section 149 of the Equality Act 2010 which requires it to have due regard to the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

31. Services will continue to monitor the impact of these actions and will take appropriate action to mitigate additional negative impacts that may emerge as part of ongoing analysis.

**Our Purpose – Corporate Priorities:**

32. Regular reporting of the financial position underpins the delivery of all priority objectives, contributing to the overarching ambition to ensure No One Left Behind.

**Vulnerable Children and Adults - Implications:**

33. No significant direct implications of this report.

**What Happens Next:**

34. The relevant adjustments from recommendations will be made to the Council's accounts.

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**Consulted:** Cabinet, Executive Directors, Heads of Service

**Annexes:** Annex 1 – Detailed Revenue M2 position  
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Service	Cabinet Member	Net budget	Forecast	Outturn variance
Public Health	M Nuti	£39.8m	£39.8m	£0.0m
Mental Health Investment Fund	M Nuti	£0.0m	£0.0m	£0.0m
Communities & Prevention	M Nuti	£3.8m	£3.8m	£0.0m
Adult Social Care	S Mooney	£484.9m	£484.9m	£0.0m
<b>Adults, Wellbeing &amp; Health Partnerships</b>		<b>£528.5m</b>	<b>£528.6m</b>	<b>£0.0m</b>
Family Resilience	J Hulley	£71.4m	£71.4m	£0.0m
Education and Lifelong Learning	J Hulley	£30.6m	£30.6m	£0.0m
Commissioning	J Hulley	£2.9m	£2.9m	£0.0m
Quality & Performance	J Hulley	£97.9m	£97.9m	£0.0m
Corporate Parenting	J Hulley	£114.5m	£114.5m	£0.0m
Exec Director of CFLL central costs	J Hulley	£1.0m	£1.0m	£0.0m
<b>Children, Families and Lifelong Learning</b>		<b>£318.4m</b>	<b>£318.4m</b>	<b>£0.0m</b>
Highways, Transport & Network Management	M Furniss	£80.1m	£80.1m	£0.0m
Environment & Planning	M Heath	£6.7m	£6.7m	£0.0m
Major Infrastructure Delivery	N Bramhall	£0.2m	£0.2m	£0.0m
Economic Growth	M Furniss	£1.2m	£1.2m	£0.0m
Place Support	M Furniss/ M Heath/ N Bramhall	£3.9m	£3.9m	£0.0m
Waste & Circular Economy	N Bramhall	£77.4m	£77.4m	£0.0m
<b>Place</b>		<b>£169.4m</b>	<b>£169.5m</b>	<b>£0.0m</b>
Surrey Fire and Rescue	K Deanus	£41.8m	£42.5m	£0.6m
Safer Communities	K Deanus	£1.1m	£1.1m	£0.0m
Emergency Management	K Deanus	£0.7m	£0.7m	(£0.0m)
Trading Standards	K Deanus	£1.9m	£1.9m	(£0.0m)
<b>Community Protection &amp; Emergencies</b>		<b>£45.6m</b>	<b>£46.2m</b>	<b>£0.6m</b>
Comms, Public Affairs & Engagement	T Oliver/ K Deanus	£2.5m	£2.5m	£0.0m
Customer, Culture and Transformation	D Turner-Stewart/ D Lewis/ K Deanus	£18.0m	£18.0m	£0.0m
Information Technology & Digital	D Lewis	£24.3m	£24.3m	£0.0m
Land & Property	N Bramhall	£28.3m	£31.3m	£3.0m
People & Change	T Oliver	£9.8m	£9.8m	£0.0m
Transformation Programmes	D Lewis	£0.0m	£0.0m	£0.0m
Finance	D Lewis	£9.6m	£9.6m	£0.0m
Legal and Governance	D Lewis	£10.4m	£10.4m	£0.0m
Director of Resources	D Lewis	£1.0m	£1.0m	£0.0m
Corporate Strategy and Policy	D Lewis	£3.5m	£3.5m	£0.0m
Pensions	D Lewis	-£0.7m	-£0.7m	£0.0m
Internal Audit	D Lewis	£0.7m	£0.7m	£0.0m
Procurement	D Lewis	£2.6m	£2.6m	£0.0m
<b>Resources</b>		<b>£110.1m</b>	<b>£113.1m</b>	<b>£3.0m</b>
<b>Central Income &amp; Expenditure</b>	D Lewis	<b>£102.5m</b>	<b>£102.5m</b>	<b>£0.0m</b>
<b>Directorate position</b>		<b>£1,274.6m</b>	<b>£1,278.3m</b>	<b>£3.6m</b>
<b>Corporate Funding</b>		<b>£0.0m</b>	<b>£0.0m</b>	<b>£0.0m</b>
<b>Overall</b>		<b>-£1,274.6m</b>	<b>-£1,278.3m</b>	<b>£3.6m</b>