



OFFICER REPORT TO COUNCIL

2020/21 FINAL BUDGET AND MEDIUM-TERM FINANCIAL STRATEGY

KEY ISSUE/DECISION:

This report is predicated on Cabinet having approved the recommendations set out at its meeting on 28 January 2019 on the proposed 2020/21 Final Budget and Medium-Term Financial Strategy.

The Council is continuing its significant programme of change and improvement commenced last financial year. These changes will help secure the very best outcomes for the residents of Surrey. Not only are we changing the way we want to deliver services, we are also undertaking substantial capital investment which will make a real difference for the residents that the Council serves.

This budget represents a significant shift from the defensive short-term outlook that has typified the Council's financial plans for several years, and replaces it with a proactive, investment led approach to delivering for Surrey residents and to achieving medium-term sustainability. This shift is most evident in our proposed Capital Programme and the ambition laid out within it.

Although the Council and the sector in general face financial challenges and uncertainty over the medium-term, the Council has developed a budget that is balanced, sustainable and resilient for 2020/21. This will enable further transformation over the medium-term in a bid to overcome financial uncertainty and aimed at delivering the priorities for Surrey, as set out in the [Community Vision for Surrey in 2030](#) (the Vision).

This report is to enable Council to approve:

- The Revenue and Capital Budgets for 2020/21, including efficiency proposals;
- The Council Tax Precept level for 2020/21, including the precept due from each Surrey District and Borough;
- The Council's Capital Receipt Flexibilities Strategy, including the level of investment required to deliver the Transformation Programme and the move back into the County;
- The Council's Capital Programme for 2020/21-2024/25, which will deliver significant investments in the community through a Community Investment Fund; and

- The Council's Capital, Investment and Treasury Management Strategies, which provide an overview of how capital expenditure, capital financing and treasury management activity contribute to the delivery of our services.

In agreeing to the recommendations of the attached 2020/21 Final Budget Report and Medium-Term Financial Strategy, supported by Annexes, Cabinet was informed by public consultation and engagement exercises. The equality impact assessments flowing from this and implications on the budget are detailed and attached in **Annex K**. The decisions and the attached financial strategy support the achievement of the goals set out in the Vision and underpin the priorities set out in the Council's Organisation Strategy and refreshed Transformation Programme.

BACKGROUND:

The Council approved a budget on 5 February 2019 for 2019/20 focused on achieving two important benchmarks: that it was realistic/achievable, and that it avoided the general use of Reserves to set a balanced budget.

This followed a considerable in-year recovery plan implemented in 2018/19 that avoided the planned use of Reserves and ended a period whereby Reserves had fallen for three successive years.

From 2018/19 and four years prior, the Council's budget had relied on the use of Reserves and other one-off measures in order to achieve a balanced position.

RECOMMENDATIONS:

Following the Cabinet Meeting on 28 January 2020, the recommendations to Council on 4 February 2020 are:

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

1. The Executive Director of Resources' (Section 151 Officer) conclusion that estimates included in the Final Budget Report and Medium-Term Financial Strategy are sufficiently robust in setting the budget for 2020/21; and
2. It is the view of the Executive Director of Resources (Section 151 Officer), that a General Fund Balance of £21.3m and the level of Earmarked Reserves is adequate to meet the Council's needs for 2020/21 and a Contingency of £20.4m, will be held to mitigate against the risks in delivery of transformation efficiencies and cost containment plans in 2020/21.

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

3. Approves the net revenue budget requirement be set at **£968.4 million** (net cost of services after service specific government grants) for 2020/21 (Annex B), subject to confirmation of the Final Local Government Financial Settlement;
4. Approves the total Council Tax funding requirement be set at **£765.3 million** for 2020/21. This is an increase of 3.99%, made up of an increase in the level of core Council Tax of 1.99% to cover core Council services and an increase of 2% in the precept proposed by Central Government to cover the growing cost of Adult Social Care (Annex E);
5. Notes that for the purpose of section 52ZB of the Local Government Finance Act 1992, the Council formally determines that the increase in Council Tax is not such as to trigger a referendum (i.e. not greater than 2%);
6. Sets the Surrey County Council precept for Band D Council Tax at £1,511.46, which represents a 3.99% uplift. This is a rise of £1.11 a week from the 2019/20 precept of £1,453.50. This includes £131.46 for the Adult Social Care precept, which has increased by £29.07.
7. Agree to maintain the Council Tax rate set after the Final Local Government Finance Settlement;
8. The Council Tax for each category of dwelling as set out in the table below:

Council Tax Band	2019/20 £	2020/21 £
Band A	£969.00	£1,007.64
Band B	£1,130.50	£1,175.58
Band C	£1,292.00	£1,343.52
Band D	£1,453.50	£1,511.46
Band E	£1,776.51	£1,847.34
Band F	£2,099.51	£2,183.22
Band G	£2,422.51	£2,519.10
Band H	£2,907.01	£3,022.92

9. The payment for each billing authority, including any balances on the Collection Fund, as set out in Annex E;
10. Delegate powers to the Leader and Executive Director of Resources (Section 151 Officer) to finalise budget proposals and recommendations to County Council, updated to take into account new information in the Final Local Government Finance Settlement;
11. The Flexible Use of Capital Receipts Strategy for 2020/21 to meet the statutory guidelines for the use of such receipts to fund transformation and the move back into the County (Annex F);

12. The Total Schools Budget of £505.7 million to meet the Council's statutory requirement on schools funding;
13. The overall indicative Budget Envelopes for Executive Directorates and individual services for the 2020/21 budget (Annex B); and
14. The total £1.447 billion proposed five-year Capital Programme (comprising £851m of budget and £596m pipeline) and approves the £175.7 million capital budget in 2020/21 (Annex C).

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

15. The Capital Strategy (Annex G), 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;
16. The policy for making a prudent level of revenue provision for the repayment of debt (the Minimum Revenue Provision (MRP) Policy) (Annex H); and
17. The Investment Strategy (Annex I), which provides detail on how the Council will manage commercial investments.

SECTION 151 OFFICER COMMENTARY:

Building on 2019/20 Improvements to Sustainability

In Summer 2018, CIPFA was commissioned by the then Leader of the Council and the Chief Executive to undertake a review of the Council's finances and Finance function.

Their report, which was considered by Cabinet on 25 September 2018, highlighted the following:

- The Council was in a difficult financial position. It wouldn't have sufficient Reserves to meet its expected budget gap in 2019-20 unless immediate action was taken; and
- Despite some additional Central Government funding, the Council would need to fundamentally reform how it provided services to its communities and its Finance function.

At its meeting in September, Cabinet accepted CIPFA's report, and endorsed an action plan for change. A £40m package of in-year budget reductions was agreed at the same meeting of Cabinet to counterbalance the expected use of Reserves. There was an expectation that moving forward that reliance on Reserves would be replaced by setting sustainable budgets, without the need for in-year interventions. Albeit successfully delivered in-year for 2018/19, this was aligned to a very short-term approach to balance a budget as its primary criteria.

2019/20 budgets have been set without the use of Reserves, however the short-term nature of this budget has been evident through general fund Reserves which are comparatively low (given the size of Council spend), with a proportionately small general Contingency to cover risks and very little capital investment in the community.

The Council is continuing its significant programme of change and improvement commenced last financial year. These changes will help secure the very best outcomes for the residents of Surrey. Not only are we changing the way we want to deliver services, we are also undertaking substantial capital investment which will make a real difference for the residents that the Council serves

Roll-forward to 2020/21, we have a budget which does meet our hallmarks for a “good” budget (refer to paragraph 4.47). This budget represents a significant shift from the defensive short-term outlook that has typified the Council’s financial plans for several years, and replaces it with a proactive, investment led approach to delivering for Surrey residents and to achieving medium-term sustainability. This shift is most evident in our proposed Capital Programme and the ambition laid out within it.

The increased investment is not a reflection of any expectations that our medium-term funding perspective will be materially easier, but instead a recognition that investment in the right infrastructure can help keep the on-going costs of service delivery sustainable and within available resources, as well as delivering the transformational change set out in the Council’s 2030 Vision.

The Council is under a legal obligation to set a balanced budget and Council Tax levels for the 2020/21 financial year. The setting of the budget is a decision reserved for County Council. Following consultation with Select Committees, on the draft budget to allow time for their comments to be considered, the final budget proposals are included in the 2020/21 Final Budget Report and associated Annexes.

CIPFA Resilience Index

In December 2018, CIPFA provided the Council with analysis from its Resilience Index. The results for the Council set out a picture of an Authority with relatively low levels of financial resilience, but with generally strong fundamentals and opportunities to strengthen financial standing. In December 2019, CIPFA made the index publicly available for the first time. The index did not come with CIPFA’s own scoring, ranking or opinion on the financial resilience of an authority. However, users of the index have the ability to undertake comparator analysis drawing their own conclusions.

Our analysis of the index, comparing the Council against all other Counties, shows an improvement in our position between 2017/18 and 2018/19. The extent to which indicators present as higher risk has reduced and the number of indicators presenting on the ‘lower risk’ side of the scale has increased. The greatest area of strength for Surrey is in the primary indicator of Council Tax Requirement as a proportion of net revenue expenditure.

Council Tax is a stable form of income so authorities with a higher ratio on this measure face less exposure to changes in other funding streams, for example central grant funding.

The primary indicators showing improvement for the Council mostly relate to Reserves measures and this was largely driven by the Council increasing Earmarked Reserves significantly in 2018/19. The Council will not use Earmarked or General Reserves to balance the budget over the medium-term. However, Earmarked Reserves will be drawn on for their intended function, such as for the transformation programme, funding specific projects etc. As such, the Reserves indicators within the resilience index could shift either way in future years.

The primary social care indicator slipped towards the higher risk side of the index, the Council scores 73%, which is just above the comparator group average of 71%. Whilst demand for social care continues to increase nationally, and in the absence of a national funding solution, there will be an ongoing exposure to risk on this measure that the council will continue to manage. This is exemplified further in paragraph 4.50 of the attached Report.

Developing a Budget Management Culture

With a view to developing and enhancing the budget management culture in the Council, in 2019, for the first-time budget holders signed Budget Accountability Statements. The purpose was to hold budget holders to account to meet their budget envelopes. For 2020/21 we will be requesting that budget holders do the same however we are also extending it to capital budget envelopes.

Over the last two years the Council has been on track to deliver excess of £180m of efficiencies exceeding £200m with those proposed for next year. Increasingly in the Council there is a culture of accountability and managing budgets to ensure we are financially viable and resilient. Refer to Section 4 of the 2020/21 Final Budget Report.

Value For Money (VFM) Judgement

In the latest External Audit conclusion, Surrey County Council once again received a qualified VFM judgement due to its OFSTED rating and Financial Resilience (based on the 2018/19 financial year). We are doing a lot of work around financial resilience as is evidenced by our budgeting and MTFS improvements. We fully expect that this will be reflected in an improved judgement in 2020. We are also anticipating that OFSTED will return to review progress in Childrens' Services, and an improvement in our rating here will also influence our next Value for Money judgement.

Finance Improvement Programme

We are well on our way through a journey of Financial Management improvement, having commenced approximately two years ago. We have made significant progress in terms of having the appropriate capacity and capability in Finance to make the changes we require to be high performing. The improvements we implement are scrutinised by an External Assurance Panel consisting of Senior Executives in the Central and Local Government sectors.

Over the course of the last 12 month of this assurance process we have been provided with very positive feedback on the improvements being made.

S25 Report – Risks and Robustness of Reserves

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. The attached Final Budget Report has been drafted on this basis.

The Council has set a balanced budget for 2020/21. Given the reduction in funding that the Council has experienced over recent years, retention of the Council's Reserves will be essential in order to mitigate risk, including future funding uncertainties.

For 2020/21, aside from the £21.3m General Fund balance, we have allowed for a £20.4m Contingency as part of budget setting. The General Fund balance in combination with the Contingency, provides £41.7m of cover (equivalent of 4.4% of spend) to mitigate against future risk and uncertainties. On this basis, the Council's budget is considered to be robust.

A summary of Earmarked Reserves and the forecast on Reserves and Balances can be found in Annex D and detailed in Section 4.60 of the 2020/21 Final Budget Report.

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Sources/background papers:

- [2020/21 Final Budget and Medium-Term Financial Strategy](#), Report to Cabinet 28 January 2020
 - [Transformation Programme 2020: Next Phase](#), Report to Cabinet 28 January 2020
 - [Provisional local government finance settlement: England, 2020 to 2021](#), 20 December 2019
 - [Organisation Strategy 2020-25 and Next Phase of Transformation](#), Report to Cabinet 29 October 2019
 - [A Community Vision for Surrey in 2030](#), Report to Council 9 October 2018
 - Local Government Act 1972 – Section 100D (As amended)
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