Surrey County Council

2021/22 Draft Budget Report and Medium-Term Financial Strategy to 2025/26

1. EXECUTIVE SUMMARY

1.1 The 2021/22 Draft Budget Report and Medium-Term Financial Strategy to 2025/26 updates on the progress to deliver a balanced budget for 2021/22 and to outline ambitious, sustainable and resilient medium-term financial plans.

1.2 The production of the 2021/22 budget has been developed through an integrated approach across Strategy, Transformation and Finance, based around a set of Core Planning Assumptions which set out likely changes to the environment in which we deliver our priorities. The integrated approach ensures that revenue budgets, capital investment and transformation plans are all aligned with each Directorate's service plans and the new Corporate Priorities of the organisation. Ensuring that each aspect of planning for 2021/22 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 Covid-19 pandemic and wider pressures. 10

1.3 Continuing a trend set over several previous financial years, Local Government funding remains highly uncertain, with a number of factors likely to result in significant changes to our funding position over the medium-term. These factors are set out in section 5 of this report and include in particular; a one-year Spending Review likely to be announced on 24th November (in lieu of an anticipated three-year settlement) which may or may not include the possibility of a further year of Adult Social Care precept and clarity on the treatment of the DSG High Needs Block (HNB) deficit. The provisional settlement is expected to be released close to Christmas with a final settlement in January 2021. Government spending to combat Covid-19 and mitigate its impact on business and individuals has led to record levels of public sector borrowing; this may well influence the level of funding available for Local Authorities.

1.4 Despite the funding uncertainty, the overall outlook for 2021/22 is one of stability; with Directorate budget envelopes currently projected to remain largely at 2020/21 levels. There remain significant challenges in managing growth in demand (particularly in Children's services), inflationary pressures and the ongoing impact of Covid-19 within those envelopes. In terms of living within the principles of a budget envelope approach, Directorates have been tasked with identifying efficiencies to close their element of the overall budget gap.

1.5 Good progress has been made over the last few months however, at present, there remains a provisional gap for 2021/22 of £18.3m. This is not insignificant and will require further actions to close. However, given where we are in the process prior to producing the Final Budget in February, and dependent on the outcome of the Settlement, we are confident that we will be able set a balanced budget for 2021/22.

1.6 The key elements of this report include:

- The refreshed Organisation Strategy
- An update on our Transformation plans
- Directorate Service Strategies aligned to both of the above

- The Financial Strategy for 2021/22– incorporating both revenue and capital
- 2020/21 Financial Performance – revenue and capital
- The medium-term financial outlook to 2025/26
- Our approach to consultation
- Next steps

1.7 Between now and February 2021 when the budget is approved by full Council, officers and Cabinet Members will work closely together to close the current budget gap; challenge and refine assumptions and finalise the development of the Capital Programme.

2. ORGANISATION STRATEGY 2021 – 2026

2.1 The Organisation Strategy sets out the Council's contribution to achieving the aims and ambitions set out in the Community Vision 2030 (the 2030 Vision). The Covid-19 pandemic has fundamentally shifted the strategic context in which we are operating. Our data and insight shows that the 2030 Vision is still the right destination but the way we get there needs to change to ensure we can support delivery of this and create better lives, a better place and a county where no-one is left behind.

2.2 The priorities that have emerged through the Council's response to Covid-19 have formed a new focus for our work and Cabinet agreed a refresh of the Council's Organisation Strategy in October 2020. The strategy sets out a clear strategic direction for the council and brings together a number of interrelated workstreams including response and recovery to the Covid-19 pandemic, our transformation programme and our Medium-Term Financial Strategy alongside day to day activity of our services.

2.3 We continue to face financial challenges alongside rising demand for services, a situation that has worsened as a result of Covid-19. In this context, and to help us to continue to deliver on the long-term aims for the county, the refreshed strategy emphasises four priority objectives as our new focus and around which our activity and resources will be aligned:

- Growing a sustainable economy so everyone can benefit
- Tackling health inequality
- Enabling a greener future
- Empowering communities

We have also made it clearer that our guiding principle will be to tackle inequality and ensure no one is left behind in the county. The impacts of Covid-19 and lockdown measures have widened social, economic and health inequalities, with different impacts by age, race, poverty and wealth. The Organisation Strategy sets out how we will tackle these inequalities, so that we can provide support early for some of Surrey's most vulnerable residents and stimulate economic recovery and jobs growth.

2.4 'No one left behind' is the guiding principle that runs throughout our strategy and underpins our commitments around Equality Diversity and Inclusion (EDI). Our ambition is to remove barriers and level the playing field to make it easier for people to engage with the council and access the services they might need. This will enable us to target our resources more effectively so that we can support the most disadvantaged and redesign services in a smarter way to ensure they are inclusive and accessible to all.

2.5 The Organisation Strategy sets how we will support communities to help themselves and increase their ability to make their own lives better, and how we will work with Government and local partners to develop solutions together. The limits on resources mean we need to work smarter to continue to put ourselves on a sustainable financial footing. The strategy will guide how we will organise our money, people and other resources around achieving our priorities so that we can improve outcomes for residents.

2.6 The Organisation Strategy provides a clear direction for the Council and guides the decisions that we take around the way we deliver services and the way we will work with our partners and our residents. Focussing on a smaller set of priorities will mean we can better align our resources and activity to delivering the outcomes that will make the most difference to the lives of residents, and ensure we are doing this in the most financially sustainable way. Success for the council should be on the impact that we have and making a positive difference for residents through our activity to deliver on our priority objectives.

3. TRANSFORMATION UPDATE

Background

3.1 Over the last two years we have made good progress in delivering far reaching and ambitious transformation across a wide range of services and initiatives.

3.2 The current programme was agreed by Cabinet in January 2020 to continue to address financial and performance challenges and start to fundamentally reform the function and focus of the organisation so that we can deliver the best possible outcomes for residents and achieve the vision for Surrey in 2030.

3.3 The programme has improved services, built capacity and competency, stabilised the organisation, and addressed critical and immediate challenges faced. This includes achieving over £55m of efficiencies to date and containing costs in areas of growing demand, thereby ensuring we can operate within available resources and protect investments in key services.

3.4 At the same time, we have started to develop new service models. By working differently with our residents and partners, we are helping to prevent problems earlier and better support residents and communities to be independent. In key areas such as children's services and adult social care we are now seeing the positive impact these new approaches can have for residents.

Why we are refreshing the transformation programme

3.5 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 have committed to review and refresh our programme annually, ensuring we continue to build on and improve what we do for our residents.

3.6 The transformation programme must continue to align with the strategic priorities of the organisation and as such the refreshed programme will be designed to deliver on the four key dial-up areas in the revised Organisational Strategy:

- Growing a sustainable economy so everyone can benefit
- Tackling health inequality
- Enabling a greener future
- Empowering communities

The refreshed programme

3.7 The refreshed programme is being developed with a focus on:

1. continuing the implementation of a number of large-scale delivery programmes (e.g. SEND transformation) that are ensuring critical services are improved and are financial sustainable
2. ensuring programmes will contribute to successfully delivering the council's four strategic priorities (see paragraph 3.6)
3. a range of initiatives that lay the foundations for future Public Sector Reform and a new operating model for the Council based on a blend of agile, digital and more community-focussed ways of working.

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3.8 Transformation will continue to deliver significant efficiencies as part of the MTFS and will contribute cost containment and demand management in Adult Social Care and Children's services. Currently we anticipate transformation delivering further efficiencies of £15m in 2021/22 and £19m in 2022/23 and work is ongoing to increase these where possible. *Please note, these numbers are based on current calculations and are subject to change; they will be confirmed as part of the final budget approval process.*

3.9 A number of the programmes, in particular those that will underpin the shift to a new operating model, will over the next year drive the design and proposals for improved productivity and efficiencies that will contribute to the 2022/23 onwards position, ensuring the council can deliver on its ambitions within a reduced medium term funding envelope.

3.10 The focus of transformation in the short term is to continue to drive service improvements and continue to stabilise areas of poor performance. In the medium-term transformation will drive deeper and more fundamental improvements across a range of areas that span the organisation. This will be aligned to the Organisation Strategy and will seek to drive a significant increase in productivity while continuing to manage demand and deliver efficiencies to help address the budget gap.

3.11 Work is underway, co-ordinated by the Transformation Support Unit, to scope and define the final refreshed set of programmes required to deliver on the organisation strategy goals and service strategies. At this stage we are still working to finalise the suite of projects that will constitute the revised transformation programme with over 30 initiatives currently being reviewed.

3.12 These will undergo a process of engagement, refinement and iteration throughout November and December, culminating in a finalised programme that will form part of the budget approval process through Cabinet and Full Council in the New Year.

4. SERVICE STRATEGIES 2021-2026

ADULT SOCIAL CARE

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. ASC operates in a challenging environment with reductions in government funding; an ageing population and growing numbers of young people moving into adulthood who need services; an increasingly fragile care market; and radical changes in national policy. The Covid-19 pandemic has added another level of complexity, with ASC playing a crucial role in SCC's response to save lives, protect the National Health Service (NHS), ensure our residents are protected wherever possible and continue to deliver essential services. 10

4.3 ASC's 2021-26 MTFS seeks to build on and further progress the ambitious transformation programme that the service originally embarked on in 2018. At its heart is the implementation of a new 'strength-based' framework that focuses on people's strengths to promote their independence. This has already enabled SCC to manage demand for ASC more efficiently and effectively and make a substantial contribution towards putting SCC in a more financially sustainable position.

4.4 The implementation of ASC's transformation programme has already delivered significant financial benefits. As a result of the actions taken by ASC's leadership team to control expenditure and begin to implement transformation plans, by 2019/20 net expenditure had only increased to £362.5m from the £359.4m spent in 2017/18. This was £48.9m less than the provisional (but unaffordable) budget for 2019/20 proposed in the 2018-21 MTFS. The 2020/21 budget planned for net expenditure of £372.1m. Excluding additional Covid-19 costs, the current outlook is that an underspend will be delivered in 2020/21. The number of people funded by ASC, particularly Older People, has sadly reduced due to the Covid-19 pandemic, but beyond this another year in which total net expenditure is likely to increase by 2% or less is evidence of the continued success of the actions ASC has put in place to effectively manage expenditure through transforming service delivery.

4.5 Based on SCC's current expected funding, ASC, like most services, has been asked to develop a financial strategy that holds expenditure in 2021/22 at ASC's current 2020/21 budget of £372.1m. This is a very significant challenge in the context of the pressures ASC faces. Total pressures are budgeted at £16.5m in 2021/22, £106m for the whole 2021-26 MTFS period. The majority of the pressures relate to care package expenditure, which not surprising given that almost 90% of ASC's gross expenditure relates to supporting people and their carers. The biggest pressures are care package price inflation (budgeted at £11.6m in 2021/22, £64m for 2021-26), and care package demand (budgeted at £6.6m in 2021/22, £32.1m for 2021-26).

4.6 ASC plans to deliver an ambitious programme of efficiencies in order to mitigate these pressures. These efficiencies take into account that Surrey remains a high spender on ASC per head of population compared to comparator authorities. At present £11.5m of efficiencies are budgeted in 2021/22 and £31.2m over the whole 2021-26 MTFS period. More will be needed in the medium term in particular.

4.7 The majority of ASC's efficiencies (£8.3m in 2021/22 and £28m over the whole 2021-26 MTFS period) are expected to be achieved through delivery of ASC's transformation programmes. These programmes focus on:

- **Transforming the care pathway**, including implementing a new discharge to assess model across all Surrey hospitals.
- Developing new care settings in the community to enable a shift away from residential care through the **accommodation with care and support** programme.
- Changing models of care to focus on promoting independence through the **Learning Disabilities and Autism** programme.
- Improving **market management**, including creating a central brokerage function and commissioning new frameworks for home-based care, Older People nursing & residential care and Learning Disabilities and Autism independent living.
- Comprehensively **reviewing all care services delivered in-house by ASC** to determine the best way of delivering these services in the future.
- Re-shaping service delivery and reviewing organisational structures through the **mental health transformation** programme.
- Implementing a comprehensive new **Technology Enabled Care services** offer, which will be an essential enabler to the delivery of all of the above programmes and their efficiencies.

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4.8 There are £3.2m of further efficiencies proposed in 2021/22 for resolution of Continuing Health Care disputes and the implementation of a new strategy for people with Physical or Sensory Disabilities that do not directly relate to ASC's transformation programmes.

4.9 Delivery of ASC's transformation programme is likely to involve SCC committing significant capital resources, both in terms of use of SCC owned land, that could potentially otherwise be sold or used for alternative purposes, and direct capital expenditure. Proposals for pipeline capital expenditure of c£90m for developing new affordable Extra Care provision for Older People and c£55m for developing new Independent Living provision for people with Learning Disabilities or Autism are being developed and will be included in the final 2021-26 MTFS. This represents the initial estimated capital investment that SCC may be required to contribute towards the development of 725 new affordable units of Extra Care and 500 units of independent living (noting that SCC will not lead on the funding and development of all these units). The pipeline funding will be drawn upon as required based on decisions made by Cabinet about proposed schemes on different sites. There will also be a need for continued capital investment in the care homes operated in-house by ASC and consideration of the long-term future of these sites which could have significant capital implications.

4.10 It is recognised that changes will not necessarily be welcomed, initially at least, by all. Some of ASC's important stakeholders including service users, care providers and NHS partners may challenge aspects of ASC's planned transformational changes. It will be important to remain cognisant of these challenges and respond to them in a considered manner. There is no question though that significant change does need to take place if spending on ASC is to be kept within what SCC can afford.

4.11 The current pressures and efficiencies planned result in a gap of £5m for ASC in 2021/22 compared to the budget envelope that has been set based on the SCC's current expected funding. This gap grows to £107.6m by 2025/26. ASC will seek to deliver an underspend above the current forecast in 2020/21 if at all possible and will also continue to review whether the current level of efficiencies budgeted could be extended to close the gap in 2021/22 and beyond. The outcome of the Local Government Finance Settlement will also of course determine the gap that ASC has to address next year. However, it is important to be clear that it will not be possible to offset all pricing and demand pressures indefinitely in the medium-term without potentially more serious societal impacts, or risk of being in breach of our statutory obligations. To avoid those negative impacts Surrey, like all local authorities, is reliant on the government to safeguard social care in the long term by finally implementing the fundamental changes and investment to the social care system in England that have been promised for so long. Successive governments have repeatedly promised a Green Paper on ASC reform, but it is currently completely unclear when this will be brought forward.

PUBLIC HEALTH

4.12 SCC's Public Health (PH) service improves and protects the health and wellbeing of people living and working in Surrey. It achieves this by:

- Providing expert PH information and advice to ensure SCC's decision making is evidence based and cognisant of all relevant PH implications.
- Supporting people to make positive changes to improve their health and wellbeing throughout their life.
- Protecting Surrey residents from communicable diseases and environmental hazards.

4.13 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.

4.14 PH's priority focus in 2020 has of course been on supporting the containment and management of the Covid-19 pandemic. The PH service has mobilised its resources and expertise to ensure that accurate and up-to-date information about infection rates across the county along with intelligence on the wider impact of the pandemic is provided for decision makers, and has worked closely with SCC's Corporate Leadership Team (CLT) and Surrey's Local Resilience Forum (LRF) to advise on how the virus can be most effectively managed for staff, residents and the delivery of essential services. As part of this, SCC's PH service is leading on the deployment of the £3.4m of Test and Trace funding that Surrey has received, and will also be coordinating claims for funding under the government's tiered alert levels for Covid-19 once the new national lockdown has ended. At the same time, the PH service continues to provide responses 7 days a week to local health protection queries and notifications of outbreaks from across the system whilst also ensuring the delivery of the majority of its core functions and commissioned services that our an integral part of the delivery of the local health and wellbeing strategy. These, it could be argued, are more important than ever, to maintain and improve people's health and wellbeing during these very challenging times.

4.15 The PH service is reviewing its priorities for 2021/22 and beyond in light of the Covid-19 pandemic. These updated priorities will be reflected in the final budget report in January 2021. Since transferring to SCC from the NHS in 2013/14, Surrey's PH service has had to operate in a very challenging financial environment. There have been three main financial challenges:

- Firstly, Surrey's PH funding is very low. Surrey's 2020/21 PH grant equated to £31.45 per head of population (the second lowest per head allocation in the country) compared to an England average of £57.82 per head.
- Secondly, the government has implemented a series of cuts to PH grant funding in recent years. When grant funding in 2013/14 is rebased to take account of additional responsibilities that have transferred to local authorities since the initial commissioning transfer, even when this year's increased funding is taken into account, Surrey's PH grant in 2020/21 is still 3% (£1.2m) lower than it was in 2013/14.
- Thirdly, like all council provided services, Surrey's PH service has been impacted by the reductions to broader central government funding that SCC has suffered in recent years. An increasing proportion of the PH grant has been allocated to services delivered or commissioned by other parts of SCC that contribute to meeting PH outcomes. Currently £5.4m of Surrey's PH grant is budgeted to fund PH services delivered by other parts of SCC. This has required the PH service to make reductions to the services it directly commissions.

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4.16 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. Between 2013/14 and 2019/20 expenditure on services directly commissioned by Surrey's PH service reduced by £9m (23%), when additional responsibilities that have transferred to PH in recent years are taken into account.

4.17 Surrey's PH grant was increased in 2020/21 by £2.4m. All local authorities have received increased funding in 2020/21, but the scale of increase has varied between authorities. Surrey was one of fourteen authorities to receive the highest 6.8% increase in PH grant funding from the Department of Health and Social Care (DHSC). It is assumed that this is in part in response to the representations that SCC has repeatedly made to government in recent years about Surrey's very low level of PH funding.

4.18 PH were required to use £0.8m of the £2.4m increased 2020/21 funding to cover the cost of the Agenda for Change NHS pay award for contracted services where this applies. In light of the reductions in expenditure on PH directly commissioned services that have been necessitated by SCC's financial position, and the importance of PH services in the context of the Covid-19 pandemic, Cabinet has agreed that the full £1.6m remaining grant increase for 2020/21 should be allocated to the PH service for investment in additional PH service provision. A significant proportion of this increase is planned to be used to expand the provision of mental health and substance misuses services, which were already under pressure in Surrey prior to Covid-19 pandemic and have seen demand increase considerably in recent months.

4.19 PH's budget envelope has been increased by the £2.4m 2020/21 grant increase to £32.6m. In 2021/22 this revised budget envelope of £32.6m will remain unchanged and PH is not at present required to deliver efficiencies next year in light of SCC's desire to increase PH service provision. It is expected that the PH grant will remain ringfenced in 2021/22, but based on the government's current proposals it would become unringfenced in 2022/23 when the government plans to introduce a new Fairer Funding model nationwide. In light of the recognised important of PH service provision, Cabinet has approved a carry forward from SCC's General Fund to sustain increased investment in the additional services to be commissioned by Surrey's PH service until at least 2022/23. This will mean the PH service will have a stable budget for the next two years and will avoid a situation whereby service provision is increased in 2021/22, but is then potentially subject to reductions the year after.

4.20 From 2023/24 the PH service will need to manage its expenditure within SCC's available resources. Based on the current outlook it is likely that expenditure on service provision may have to be reduced from this point. It is important to be clear though that any further reduction in PH spending in Surrey could have very serious long-term impacts for Surrey residents, especially considering how much of an outlier Surrey already is in terms of low PH spending. Therefore, any future changes to Surrey's PH spending once the national funding position is clearer will require very careful consideration, prioritisation and evidence-based decision making. In the meantime, SCC will continue to lobby for increased PH funding to support the delivery of the health and wellbeing priorities for Surrey residents. 10

CHILDREN, FAMILIES, LIFELONG LEARNING & CULTURE (CFLC)

4.21 Our purpose is to ensure that Surrey's children and families get the help and support they need at the right time, enabling children and young people to be safe and feel safe, healthy, have great education, skills and employment opportunities and make good choices about their wellbeing. Our ambition is that children and young people can live, learn and grow up locally. The directorate aims to work with all our multi-agency partners and in true partnership with children and families to provide them with access to a range of services that tackle inequalities in outcomes, support independence and enhance their lives.

4.22 The global Coronavirus (Covid-19) pandemic has seen the communities that we live and work in change overnight and has required us to be resilient and adaptable in our approaches to working with people and the services that we provide.

4.23 We have seven strategic priorities for 2020/21 alongside our ongoing, business as usual, responsibilities within the Directorate. These seven are:

- Response to the Coronavirus Pandemic
- Starting well: first 1000 days
- Children's Services Improvement
- SEND and additional needs transformation
- Emotional Health and Wellbeing
- Libraries and Cultural Services transformation
- Enabling our people, utilising our technology and embedding equality and diversity for all

4.24 **Special Education Needs and/or Disabilities (SEND) Transformation**

- In March 2019, Ofsted and the Care Quality Commission carried out a joint review of Surrey's progress in addressing weaknesses that were highlighted in a previous inspection in 2016;
- The inspectors judged that the local area had made sufficient progress in four out of five areas of weakness, but that there was more to do. The partnership of County Council,

Clinical Commissioning Groups (CCGs), educational settings and alternatives to education provision are working together with families, to transform services for children needing support, to help them reach their potential and lead more independent lives;

- The financial demands on the High Needs Block (HNB), which funds the majority of revenue aspects for SEND, have continued to increase resulting in a forecast £31m overspend in 2020/21. In order to mitigate the risk associated with the HNB deficit, the Council is contributing £31m to an offsetting reserve out of its own resources. This represents a £7m additional contribution to the budgeted £24m. The ambition of the transformation programme is to bring this annual contribution down to a neutral position, before beginning to pay back the deficit. For 2021/22 there are £20m of efficiencies associated with this programme to maintain the current budgeted overspend position of £24m

- As part of the SEND transformation plan, on 29 September 2020, Cabinet approved the latest SEND Capital programme to develop local provision in order to meet demand. This includes an additional 213 places for the academic year 2021/22 providing more specialist school places in Surrey mainstream and special schools – so that children with SEND could be placed closer to home;

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4.25 **Looked After Children**

- The impact of COVID-19 has created additional pressure within Corporate Parenting and Family Resilience in responding to the level of referrals and providing the right support for Looked After Children (LAC). Managing the one-off pressure from increased Covid-19 referrals and the underlying growth in LAC we have seen over the past few years is being undertaken through a number of areas;
    - Using the Capital programme to Increase internal provision which is more cost effective than external providers.
    - Transformation programme helping to fund a number of areas such as no-wrong door, mockingbird and the Family Safeguarding model. All of these will assist with both managing decisions around referrals into the system and ensuring resources are applied effectively

4.26 **Integrated Commissioning**

- Changes continue to be made to Integrated Children's Commissioning that will strengthen the way we integrate, deliver and continue to develop our Integrated Care System (ICS) to improve outcomes for our residents. It aims to drive forward and support agile decision making and effective use of resources, with a key focus on self-care, prevention, early intervention and building resilience.

- The Emotional Wellbeing and Mental Health (EWMH) contract re-procurement is progressing to be implemented in April 2021 and will represent the first major piece of work undertaken as part of these new integrated commissioning arrangements.

4.27 CFLC continues to see significant cost pressures within placements for both education (SEND) and Social Care (LAC). In both areas this is driven by a growth in demand and to a lesser extent increased unit costs. Expanding internal provision within the Council is part of the strategy for both SEND and LAC. In house placements are more cost effective whilst also enabling the Council to have greater contact and engagement with the Children. This approach is reflected in both the SEND and LAC Capital programmes.

ENVIRONMENT, TRANSPORT AND INFRASTRUCTURE

4.28 Environment, Transport & Infrastructure (ETI) aims to **shape places, improving the environment** and reaching **sustainability and climate change targets**. **Building resilience** in the Surrey community through provision of **transport and digital connectivity**, infrastructure, and services in a **flexible** way that puts our **customers first** and provides **excellent value** for taxpayer money. ETI aims to embrace **effective and genuine partnership working** with resi**dents, peers, and business to deliver outcomes**.

4.29 ETI is developing a 5-year financial strategy which reflects a number of factors including:

- delivering on the Organisational Strategy, in particular enabling a Greener Future as well as climate change (as per the Surrey Climate Change Strategy),
- responding to other priorities including a visitor-facing countryside service, major capital infrastructure delivery and placeshaping (as per the Surrey Place Ambition); as well as new legislation such as the Government's National Waste Strategy and the Environment Bill,
- COVID-19 is also impacting on services with new ways of working, travelling, and new expectations as a result of changing behaviour arising from lockdown. Impacts include pressure on the bus industry and increased waste volumes, which could continue into the medium term,
- the proposed financial strategy also reflects inflationary increases where necessary, e.g. for contracts delivering highways, transport and waste services.

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4.30 This has inevitably led to growth, which the Directorate continues to review and challenge. In addition, opportunities for efficiencies are being actively pursued, including energy savings arising from street lighting LED conversion, additional opportunities for cost recovery and income, opportunities for better joint working with districts and boroughs on waste, and opportunities to reduce waste disposal costs.

4.31 The proposed ETI capital programme supports these objectives through continued investment in infrastructure, as set out in section 6. The capital budget totals £557m over the MTFS period and includes investment in highway maintenance (roads, bridges, etc), flood alleviation including the River Thames Scheme, ongoing conversion of streetlights to LED, the A320 North of Woking Housing Infrastructure scheme, and public rights of way. The capital pipeline (comprised of schemes under development and subject to full business case approval) totals £387m over the period and includes major transport infrastructure improvements such as at Farnham and the A22, Local Enterprise Partnership schemes, cycling and walking improvements, and investment in energy efficiency and low carbon measures such as solar power and low emission vehicles.

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COMMUNITY PROTECTION GROUP

4.32 Community Protection Group includes Surrey Fire & Rescue Service, Trading Standards, Emergency Management, Coroners, Health & Safety, Military Covenant and Resilience. At its core, this group is positioned to work together to deliver against the Council's 2020-2025 Corporate Strategy and the 2030 Community Vision.

4.33 Partnership working is key to the success of the group, starting within Surrey County Council with Adults and Children's services, to help prioritise support to our most vulnerable residents. External partnerships with the boroughs and districts will also be key around protecting people, places and premises, and enabling closer working with businesses to support the Surrey economy.

4.34 The Group's Medium-Term Financial Strategy reflects:

- a cost review of the Coroners service, highlighting historic issues which need to be addressed. An external review of the service is under way, which amongst other things will confirm the preferred service model, and this is expected to result in budget growth;
- inflation, against pay and other costs; and
- the full year effect of the changes introduced in 2019/20 as part of Making Surrey Safer – Our Plan 2020-2023, which was approved by the Council in September 2019 following extensive consultation, and which sets out how we will deliver our prevention, protection and response activities and find better ways of working with partners, residents and businesses. The plan allows for a stronger focus on prevention and protection activities to meet the risk profile of Surrey, while continuing to provide a strong, effective, and more efficient response to incidents. The plan is supported by investment in Fire vehicles and equipment.

4.35 Through the current transformation programmes and the improved coordination of services within the Community Protection Group we will be in a perfect position to improve:

- the safety of vulnerable adults and children in their homes and neighbourhoods;
- information and assistance available to the public around protecting themselves from risk, such as fire and rogue traders, and also enabling residents to be more resilient in order to help themselves and others in their communities; and
- working with businesses around enabling greater understanding of risk, such as Health & Safety, and the impact that incidents and accidents can have on their operation.

RESOURCES

4.36 The Resources Directorate provides vital support services to the organisation. 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.

4.37 Covid-19 has shown how teams are responsive, adaptable and collaborative in tackling extreme challenges. In addition, the Orbis landscape is evolving, with a rebalancing of the twin priorities of efficiency through integration, with responsiveness to sovereign change requirements. The Directorate want 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.

4.38 Therefore, the Resources Directorate is embarking on an improvement programme, 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.

4.39 Through this improvement programme the Directorate are looking to provide efficient services without reducing the service offer. Initially the programme will look at quality of service delivery and future years will focus on realising efficiencies, in conjunction with the implementation of the new ERP solution (Unit4 Business World) and the Agile Office Estate Strategy.

4.40 COVID-19 is impacting on the services within the Directorate with pressures emerging relating to ongoing enhanced cleaning requirements within Council owned buildings, legal costs for increased Children's safeguarding demand and anticipated expected sustained loss of income from school meals, as a result of decreased parent confidence and changing school environments due to social distancing compliance. In additional there are new expectations on the IT&D team as a result of changing behaviours arising from new ways of working experienced during lockdown. 10

4.41 In financial terms, the ambition is to stabilise the Directorate and ensure the sustainability and quality of service delivery. Despite this, efficiencies have been identified to more than offset emerging pressures. In the medium term the focus on realising efficiencies will be in conjunction with:

- the implementation of the new Unit4 ERP solution to help drive more streamlined and automated processes;
- the Agile Office Estate Strategy realising efficiencies in the management of the Council's office estate;
- a renewed focus for estate rationalisation to reduce revenue costs and increased impetus on using our asset base to generate sustained income; and
- changes in culture and working practices, through adopting a Business Partnering Approach, to ensure that we work effectively across the organisation as trusted and insightful partners, enabling more efficient delivery of services while optimising our impact and generating better working relationships and outcomes within the services we support.

TRANSFORMATION, PARTNERSHIPS AND PROSPERITY (TPP)

4.42 The services of the Transformation, Partnership & Prosperity (TPP) Directorate are not currently consolidated within the one Directorate, being dispersed across several Directorates, as part of an interim Leadership Structure. For budget planning purposes, these services are being treated as being consolidated and working to the TPP Directorate budget envelope.

4.43 These services provide resources, activities and expertise that are vital to drive forward, enable and support the Council to achieve the Community Vision for Surrey 2030, the refreshed Organisational Strategy and financial objectives. There is a need to further invest in these to deliver on the recently confirmed Council's ambitions, specifically;

- Economic recovery and growth, drawing on the findings of the Surrey Future Economy Commission and research by the University of Surrey
- Embedding and supporting community-focussed approaches into the way we work, (including Local Community Networks and Your Surrey Fund), our organisational culture and the services we provide.

4.44 Financial efficiencies are being realised as Customer Services continue to extend the front-line customer service offer and implement digital enablers to support customers to successfully self-serve, reducing volumes and costs and enabling resources to be focused on priority areas.

4.45 In addition, financial efficiencies across the organisation are driven through the ambitious and forward-looking transformation programme, making a significant contribution to achieving the financial sustainability required, so that the Council can deliver priorities, resulting in better outcomes for Surrey residents.

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5. FINANCIAL STRATEGY AND DRAFT BUDGET 2021/22

5.1 This section outlines our approach to setting the budget and Medium-Term Financial Strategy (MTFS), adopting best practice to drive improvements in process and outcomes. We commenced this journey last financial year having made a number of changes to ensure that we were completely aligned with characteristics of a 'good' budget. A refreshed self-assessment against these characteristics demonstrates that we have moved forward at pace and continue that work into 2021/22. The hallmarks of a good budget translate into the principles we adopt for our budget setting process.

5.2 The outcome of the budget planning work undertaken to date is outlined in the Revenue Budget Headlines section, below, supported by Annex 1 which sets out pressures and efficiencies for each Directorate. We conclude the section by reviewing our approach to securing the financial resilience of the Council and our compliance with latest best practice in financial management.

Hallmarks of a Good Budget

5.3 As part of Phase 1 of our Finance Improvement Programme (FIP) we worked with an External Assurance Panel who suggested that we commit to assessing future budget setting processes against a best practice framework. We started the process in the last financial year but have committed to enhancing our approach in 2021/22. In March 2020, we reviewed our budget setting process against the following six hallmarks to consider improvements in the process. The table below presents an assessment of our progress against these hallmarks in setting the 2021/22 budget and MTFS.

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

Hallmark	Self-Assessment
The budget has a medium-term focus which supports the Strategic Plan	• 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

	• Despite significant uncertainty in the financial planning environment and the unprecedented impact of Covid-19, our approach continues to focus on a five-year-medium term budget which bears the hallmarks of sustainability and avoids short-term measures or depletion of reserves
Resources are focused on our vision and our priority outcomes	• The budget is based on clear integration with Organisation Strategy, the Transformation Plan and corporate priorities; developed in partnership across the organisation • The draft budget has been subject to numerous iterations through Cabinet and Corporate Leadership Team over the last four months to narrow the gap and clarify assumptions • The budget is based on the comprehensive application of a recognised framework (PESTLE – see para 5.7) to review the likely environment for budget setting and service delivery • The assessment led to the development of Core Planning Assumptions to provide a consistent framework for planning
Budget not driven by short-term fixes and maintains financial stability	• An integrated approach to transformation with a focus on efficiencies required over the medium term ensures that we are taking action now to secure a sustainable budget over the medium-term • Business cases are built around corporate priorities; focussing on benefits realisation and deliverability across transformation, invest to save and capital • We aim to continue to build general fund reserves to meet general risks and specific pressures to ensure that our resilience as an organisation grows despite an increasingly volatile and uncertain external environment
The budget is transparent and well scrutinised	• Workshops were held with Select Committees early in the budget process to set out the approach, covering the Core Planning Assumptions, the approach by services and funding projections. These continue throughout the budget setting process
The budget is integrated with the Capital Programme	• Section 6 sets out the Draft Capital Programme • The Programme is developed alongside the revenue budget by Capital Programme Panel. We will continue to clearly demonstrate delivery of corporate and service priorities and set out the impact and linkages with the revenue budget

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	• The full borrowing costs of proposed Capital Programme are reflected in the revenue budget • The full lifecycle costs of new investment are assessed to establish the long-term financial impact
The budget demonstrates how the Council has listened to consultation with local, people, staff and partners	• Section 9 sets out our approach to consultation, in summary; • We have engaged with residents over the summer to understand the impact of Covid-19 and their future priorities for the Council • During November and December 2020, 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

Budget Principles

5.4 The previous MTFS (for 2020/21 to 2024/25) contained a number of high-level principles which were used as a framework to set the budget. These have proven to be successful and been reaffirmed for the current MTFS period.

5.5 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;
- Regular review of reserves to ensure appropriate coverage for emerging risk;
- Budget envelopes set for each Directorate to deliver services within available resources;
- 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.

The 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;
- Evidence bases used to underpin all efficiency proposals;
- Assurance that all efficiencies, pressures and growth are managed within budget envelopes to deliver accountability for implementation;

- 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.

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Revenue Budget Headlines

5.6 The draft revenue budget has been developed during a period of significant uncertainty; with inflation forecasts, funding, the impact of Covid-19 and likely demand for services in 2021/22 all very unclear. This uncertainty has been managed through the development and costing of a range of Core Planning Assumptions which looked at pessimistic, optimistic and likely financial scenarios to set realistic limits on the range of potential outcomes.

5.7 The potential scenarios for service delivery and budget planning were initially modelled using the well-established 'PESTLE+' framework to build an expectation of future conditions by reference to the following factors:

- Political
- Economic
- Social
- Technological
- Legislative
- Environmental; plus
- Health

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5.8 An assessment of likely outcomes against each of the scenarios of this framework was used to develop the Core Planning Assumptions, against which the service strategies and the draft budget were developed.

5.9 As a starting point for developing the budget, an initial costing of potential budget pressures against this framework identified a potential gap for 2021/22 of between £26m and £106m (reflecting the uncertainty at that point early in the pandemic period); with a realistic picture being c£63.7m; as reported to Cabinet in the Strategic Reset paper on 29th September 2020.

5.10 Since September, Directorate growth pressures have been subject to a number of iterations; culminating in indicative pressures for the Draft Budget of £62.5m (a reduction of £1.2m since September Cabinet). Draft pressures are categorised as follows:

- Demand and inflation of **£43.4m** – amounts required to cover increasing prices, growing demand and unavoidable legislative changes
- Covid-19 impact of **£14.6m** – the expected Covid-19 pressure on Directorate spending in 2021/22. This amount excludes the impact of the pandemic on funding (set out in subsequent sections) and is subject to significant volatility. The final impact is likely to change in reaction to the impact of national and local responses to the pandemic. It does not assume any 'lockdowns' during the new financial year.
- Increased or new investment in priority areas of **£4.5m** – the draft revenue budget of £971.6m in its entirety is focused on delivering Corporate Priorities or our statutory responsibilities; this increase reflects specific, targeted investment to develop capacity where necessary to deliver priorities.

5.11 To date, efficiencies of £41m have been identified along with a small growth in funding of £3.2m (as set out in para 5.23). Together, these developments give a gap still to be closed for

2021/22 of £18.3m as shown in the table below. Further information on the position for each Directorate is set out in Annex 1.

Table 2: Summary Draft Budget Position for 2021/22

	Base Budget £m	Pressures £m	Efficiencies £m	Directorate Total £m	Directorate Gap £m
Adult Social Care	372.1	16.5	(11.5)	377.1	5.0
Public Health	32.6	0.0	0.0	32.6	0.0
Children, Families, Lifelong Learning and Culture	245.2	26.8	(20.9)	251.2	5.9
Environment, Transport and Infrastructure	132.8	9.4	(3.5)	138.8	5.9
Community Protection	36.2	1.8	(0.5)	37.4	1.2
Resources	66.6	3.9	(4.4)	66.1	(0.5)
TPP Services	17.4	0.9	(0.2)	18.1	0.7
Central Income and Expenditure	65.4	3.2	0.0	68.6	0.0
Directorate Sub-total	968.4	62.5	(41.0)	989.9	18.3
Projected Funding	(968.4)	(3.2)	0.0	(971.6)	
Net Gap	0.0	59.3	(41.0)	18.3	

Given the level of uncertainty, a gap of £18.3m (1.9% of likely net revenue funding) represents acceptable progress in balancing the budget at this early stage. Uncertainty still surrounds our funding position, the likely impact of Covid-19 and the extent to which Government measures will reduce the burden on the Council. There is every reason to be confident that a balanced budget will be achieved by the time the final budget is approved by Council in February 2021.

National and Local Funding Context and the impact of COVID-19

National context - background

5.12 On 11 March 2020, the Chancellor of the Exchequer, the Right Honourable Rishi Sunak, delivered the Government's Budget 2020[1]. Dealing with the immediate Covid-19 outbreak, the Chancellor set out several measures to deal with the economic impact, announcing a £30bn stimulus package. On the same day the coronavirus outbreak was declared a global pandemic by the World Health Organisation.

5.13 During the following week the Government dramatically increased its efforts to reduce the spread of the Covid-19 virus. Measures announced included enforced closures of some businesses and other venues, and social distancing measures. The lockdown restrictions lasted for a significant period with a gradual easing commencing in June. During this time, gross domestic product (GDP) shrank by a record 20.4%. This marked the second consecutive quarter of decline, pushing the UK into a recession.

[1] https://www.gov.uk/government/news/budget-2020-what-you-need-to-know

5.14 The impact of the actions taken to reduce the spread of virus and the subsequent recession has inevitably resulted financial hardship to both individuals and businesses. The Government's financial support measures are constantly evolving and the economic outlook for the UK is uncertain and further complicated by Brexit, with the transition period coming to an end on 31 December 2020. The Institute for Fiscal Studies (IFS) are forecasting the Government's budget deficit will climb to £350bn (17% of GDP) in 2020–21[2], more than six times the level forecast at the March Budget. They are also expecting unemployment to rise to 8-8.5% in the first half of 2021[3], double the rate at the beginning of this year.

5.15 On 31st October, the Government announced a second national lockdown commencing on 5th November. The impact of this on the economy and the Draft Budget is not yet fully understood; but may significantly increase projected collection fund deficits and set out in this section. The continued and now heightened uncertainty reinforces our focus on building resilience and stability.

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Comprehensive Spending Review (CSR)

5.16 The Government announced at the Budget 2020 that a CSR, setting out planned resource expenditure for three years from 2021/22 to 2023/24 and capital budgets for four years to 2024/25, would conclude in July 2020. Just two weeks later, on 24 March 2020, the Chancellor announced that the CSR would be delayed 'to enable the government to remain focused on responding to the public health and economic emergency'.

5.17 On Wednesday 21 October, following months of speculation about the timing and duration of the CSR, the Chancellor announced the decision to conduct a one-year Spending Review (SR) in order to prioritise the response to Covid-19 and focus on supporting jobs. The announcement confirmed the Review on the 25th November with a provisional settlement very close to Christmas.

2021/22 Provisional Local Government Finance Settlement (provisional LGFS)

5.18 The cancellation of the Autumn Statement and the announcement about the spending review has direct consequences for the timing and the type of settlement we will receive. The settlement, announcing the annual determination of funding to local government, is likely to be several weeks after the spending review and a one-year review decreases the likelihood of a multi-year settlement. This means that Councils will not gain certainty of their funding position until mid-to-late December and that certainty is unlikely to extend across the medium-term.

Local Context

5.19 Councils nationally have played a pivotal role in responding to the Covid-19 pandemic and the Government has enabled local authorities to achieve this through the swift provision of timely one-off resources. However, the economic shock the country has experienced and the recession we are facing will have profound and lasting effects, not met by temporary funding.

[2] https://www.ifs.org.uk/publications/15081
[3] https://www.ifs.org.uk/publications/15078

5.20 In 2018, the Council was at a crossroads. Over four successive years we had relied on general fund reserves to support our revenue budget whilst adopting a policy of actively lobbying Government for more funding to address years of continuous grant reductions. Having eroded our reserves substantially and facing significant financial pressures there was the very real possibility of the Council tipping into a financial deficit.

5.21 At that point we took the decision to reduce the focus on lobbying and instead concentrate on actively managing our own destiny. Just two years later at the beginning of 2020, following a CIPFA review of our financial management arrangements and subsequent financial improvement plan, our position had stabilised. The Council faced relatively few difficult decisions and felt that it was adequately prepared for whatever came next.

5.22 The transformation of the Council's finances has provided us with the security to tackle the immediate challenges arising from the Covid-19 pandemic. However, much has been made of the severe financial difficulties facing a number of other authorities and now, due to events beyond our control, we too see the future as extremely challenging.

Funding Assumptions

5.23 The macro environment this year has resulted in an unprecedented level of uncertainty over the budget planning and MTFS period. Over the course of this year our usual horizon scanning, intelligence gathering, and sector engagement have been undertaken to a much greater extent than would normally be required. Various scenarios have been modelled and the draft budget is considered to provide the most realistic overall funding position at this point in time.

The budget has been drafted with total funding of £971.6m (a £3.2m increase on 2020/21) as set out in the table and main principles, below.

Table 3: 2021/22 funding

	2020/21 £m	2021/22 £m	Change* £m
Council tax precept	760.9	775.1	14.2
Business Rates	116.2	115.6	(0.6)
Grant Funding	88.2	93.4	5.2
Funding before collection fund	**965.4**	**984.1**	**18.7**
CT collection fund	3.0	(10.8)	(13.8)
BR collection fund	0	(1.7)	(1.7)
Total funding	**968.4**	**971.6**	**3.2**

*2020/21 budget was approved at £968.4m and subsequently increased to £1,021.6m to reflect one-off Covid-19 grant funding and associated expenditure. The funding was one-off and does not increase totals for 2021/22 or beyond.

Roll forward Local Government Finance Settlement (LGFS)

5.24 We have assumed a 'roll-forward' LGFS and the announcement of a one-year spending review means this is the most likely outcome. Broadly, a roll-forward settlement would see similar principles applied to the determination of funding to local government in 2021/22 to those provided on 2020/21. Fundamentally for SCC, this assumes that 'negative RSG' continues to be eliminated in full.

Council tax funding £764.3m (Core funding £775.1m less collection fund deficit £10.8m)

5.25 **Core council tax funding increase:** The referendum principle is assumed to be maintained, allowing an increase in Council Tax of 1.99% resulting in an additional £15.2m in 2021/22. £4.3m of underlying council tax growth was set aside as contribution to reserves in 2020/21 meaning that the **overall funding change from 2020/21 is an increase of £19.6m.**

5.26 **Local Council Tax Support (LCTS):** Due to the effects of Covid-19 we anticipate that any growth in properties this year would be offset by an increase to the level of LCTS required. Early intelligence indicates this assumption is correct. However, we anticipate that the second lockdown may see LCTS exceed further property growth and could result in a reduction to the tax base of going into 2021/22. **Overall change from 2020/21 – reduction of £5.4m.**

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5.27 **Together, the increase in core council tax (£19.6m) offset by LCTS produces (£5.4m) produces a net increase (before collection fund loss) of £14.2m.**

5.28 **Adult Social Care (ASC) precept:** There has been no increase built into the budget relating ASC precept on the basis that the Government has not yet provided any directive to allow increases. If a 2% increase was announced and implemented the Council could raise an additional c£15m to help support our vulnerable adults and those in need of social care.

5.29 **Tax base:** There is a risk that the actual tax base used for final budget setting purposes will reduce further as a result of the Surrey Districts and Boroughs (D&Bs) decisions on where they set the collection rate for next year. If the collection rate assumptions were to fall by 2% compared to this year, council tax income could reduce by c£15m. This could worsen as a result of the second national lock down announced on 31st October.

5.30 **Collection fund deficit c£32m:** Based on regular information sharing with District and Borough Councils, we know that a council tax collection fund deficit in 2021/22 is extremely likely. The level of deficit will be influenced by the amount of council tax collected throughout the year and the District and Borough Councils' decisions on debt provision. The draft budget assumes a deficit in the region of c£32m/4% with £10.8m (33%) in 2021/22. **Overall change from 2020/21 – reduction of £13.8m.**

5.31 **Council Tax Collection Fund loss spread over the next three financial years:** To ease the immediate pressure on budgets the Government is proposing[4] that repayments to meet collection fund deficits accrued in 2020/21 will be phased over a three-year period (2021/22 to 2023/24). The Government's intention is for the deficit phasing to apply to all authorities and the scheme will be prescribed in secondary legislation. Latest government guidance dictates that the loss should be spread equally over three years.

5.32 There is a range of risks and opportunities in each of these assumptions largely driven by whether the macro environment remains stable over the coming months, and decisions made

[4]https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/927363/200716_Technical_details_on_LGF_package_for_Treasurers_and_FDs_FINAL_.pdf

by Government and the District and Borough Councils. On balance, whilst the mix of the above assumptions will shift how council tax income is achieved, our intelligence and modelling indicate that the overall level of funding (c£764m) is a realistic assumption.

Business Rates funding £113.9m (Retained rates £115.6m less collection fund deficit £1.7m)

5.33 **Retained rates decrease £0.6m:** Under a roll-forward funding scenario business rates broadly increase in line with CPI, although due to the relatively low measure of inflation (0.5% in September) and the impact of the pandemic, we anticipate an increase to local reliefs being awarded to businesses offsetting the inflationary increase next year and leading to a slight reduction. **Overall change from 2020/21 - decrease of £0.6m.**

5.34 **Business Rates Collection fund deficit £1.7m:** Similarly, to council tax, the level of deficit will be influenced by the amount of business rates collected throughout the year and the District and Borough Councils' decisions on debt provision as well as appeals. Due to the Council's share of retained rates being just 10%, the risk is somewhat smaller than with council tax. Current estimates on business rates collection fund loss is c£5m/10% with the ability to spread the loss making the deficit in next year's budget c£1.7m. The 2020/21 budget did not build in any assumptions for the business rates surplus/deficit. **Overall change from 2020/21 decrease of £1.7m.**

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Grant funding £93.4m

5.35 Key assumptions for grants for a roll–forward scenario:

- Negative RSG is eliminated in full
- Continuation of **New Homes Bonus** (legacy payments only)**, Social Care Support grant** and **Business rates multiplier compensation.**

5.36 Grants held centrally which fall outside the scope of the settlement that are expected to continue and consist of **Public Health grant, Private Finance Initiative** and the central share of the **Dedicated Schools Grant.**

5.37 The 2020/21 budget was approved at £968.4m of which £88.2m related to grant income. This was subsequently increased by to reflect Covid-19 grant funding and associated expenditure. The grant funding was one-off and does not increase total grant for 2021/22 or beyond. All grant funding is reviewed and updated in line with the latest intelligence. This early intelligence indicates a net increase between 2020/21 and 2021/22 of **c£5.2m.** This net increase is largely driven by revised assumptions on the central share of the Dedicated Schools Grant (still to be finalised).

5.38 All income assumptions will be revised in the coming months following the SR, provisional LGFS, other ad-hoc government announcements and the D&B confirmation of the 2021/22 tax base and collection fund estimates for budget setting purposes.

DSG High Needs Block uncertainty

5.39 The Dedicated Schools Grant (DSG) High Needs Block (HNB) expenditure continues to be a significant pressure for the Council. We are witnessing significant and rising demand for SEND support and this has been exacerbated by Covid-19; in particular the requirement to continue paying suppliers at previous rates through the pandemic. This requirement has delayed or prevented a number of our cost containment plans from being realised.

5.40 Currently we are projecting an annual deficit of around 16% (c£31m) which would result in a cumulative deficit of c£80m at the end of 2020/21. For context, a cumulative deficit of £80m represents over 10% of our annual Council Tax Requirement. Government have taken the first step to clarify that deficits should be recovered within the DSG budget. We await clarification on discussions between MHCLG and the Department for Education on the accounting treatment for DSG deficits which we understand are due in November, as well as a hoped for funding solution via the schools funding settlement.

CIPFA Resilience Index Update

5.41 CIPFA's Financial Resilience Index, made publicly available for the first time in 2019, aims to support good practice in the planning of sustainable finance. The index does not come with CIPFA's own scoring, ranking or opinion on the financial resilience of an authority. However, users of the index can undertake comparator analysis drawing their own conclusions.

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5.42 The 2020 index, which will provide the relative position for the 2019/20 financial year, will not be made publicly available until December 2020 and because an authority's performance is ranked relative to those in the selected 'comparator group', we will not know how we compare until its release. Notwithstanding, we continue to strengthen our resilience as an organisation, including building our reserves to tackle the challenges we know the future will bring. As such, we expect the index to show improvements at an individual level in the majority of the primary indicators.

5.43 Building on this, and despite the challenges we have faced, we again intend to set a balanced budget for 2021/22 and over the medium-term without the use of general reserves. Earmarked Reserves may be drawn on for their intended function, such as to mitigate the impact of Covid-19 and for the transformation programme, funding specific projects. As such, the reserves indicators within the resilience index could move either way in future years but our underlying resilience is likely to grow.

CIPFA FM Code of Practice

5.44 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.' The FM code has several components including six Principles of Good Financial Management, setting the benchmark against which all financial management should be judged.

CIPFA expect the first full year of compliance with the FM Code to be 2021/22 and it is for individual authorities to determine whether they meet the standards. As such officers are reviewing the guidance released earlier this year as part of the budget setting and MTFS planning process. The final budget report will set out our findings and any actions required to ensure we continue to adopt best practice.

6. DRAFT CAPITAL PROGRAMME 2021/22 TO 2025/26

Overview

6.1 This section of the report provides an update on the development of the Capital Programme for 2021/22 to 2025/26, taking into account work that has been carried out by officers and Cabinet Members over the last 12 months.

6.2 The planning process to set the Capital Programme began earlier this year than it has done previously. This is part of a continuing improvement of capital planning which ensures that equal prominence is given to capital and revenue, with a fully integrated approach. During 2020, the officer-led Capital Programme Panel (CPP), chaired by the Director, Corporate Finance, ensured that the framework for setting the Capital Programme continues to focus on alignment with the four new corporate priorities (set out in the Organisation Strategy), outcomes for residents, deliverability and affordability.

6.3 The governance around the Capital Programme continues to be led by CPP and the three Strategic Capital Groups (SCGs) for Property, Infrastructure and IT. 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. 10

6.4 For the 2020/21 to 2024/25 Capital Programme, we introduced the concept of a capital pipeline. This continues for the new MTFS period and allows us to reflect comprehensive and ambitious spending plans for the Council prior to full business cases being approved by CPP and Cabinet. The capital pipeline holds schemes in the early stage of development which are moved into the approved budget only when their benefits and deliverability are adequately demonstrated to CPP and Cabinet. The borrowing costs for all schemes, including the pipeline, are factored into the revenue budget and are set out in section 6.13 and 6.14, below.

6.5 An external review by PwC of the revised capital governance and approach to budget setting has provided assurance that the process reflects best practice. The recommendations from the review have provided a path to stronger governance consistent with the ongoing goal of adopting streamlined, fit-for-purpose processes. Many of the recommendations have been implemented already. This will continue throughout 2021/22 as we seek to drive continuous improvement.

6.6 Key improvements that have been implemented to-date include:

- Capital governance structures, panel attendees and terms of reference finalised, including SCGs and CPP
- The introduction of monthly budget-profiling and monitoring of year-to-date spend against realistic plans
- Expenditure forecasts reviewed in detail each month, with plans developed to mitigate slippage
- Introduction of outcome-based reporting; focusing on key deliverables alongside forecast spend
- Linking proposals (new and existing) to corporate priorities and efficient use of assets
- Improved collaboration between budget holders and finance business partners for the development and costing of business cases

- Increased focus on risk assessment at CPP for the overall programme informed by SCGs, including improved risk assessment at business case stage

6.7 Further development is required to implement the remaining recommendations of the PwC review. Work is currently underway to improve and align business case development across the SCGs, CPP and Cabinet to ensure that robust and consistent information is provided to decision makers.

6.8 The Council is developing its project management capacity to enable the timely production of robust business cases for pipeline projects and to accelerate the conversion of approved business cases to project delivery.

6.9 The changes in structure, governance and processes from 2020/21 in capital budget setting, monitoring and delivery have been embedded as business as usual. These changes have ensured that plans are iterated throughout the year to reflect strong governance and control of the Capital Programme, maximise funding available and delivering outcomes within the financial constraints and risk appetite of the Council.

6.10 Over the Summer, spending plans have been iterated and the SCGs have come forward with a refreshed set of proposals; some of which require further scrutiny and benefits testing before they are included in the pipeline. The latest iteration of the Capital Programme is set out in the sections below.

Capital Programme – MTFS Budget and Pipeline Summary

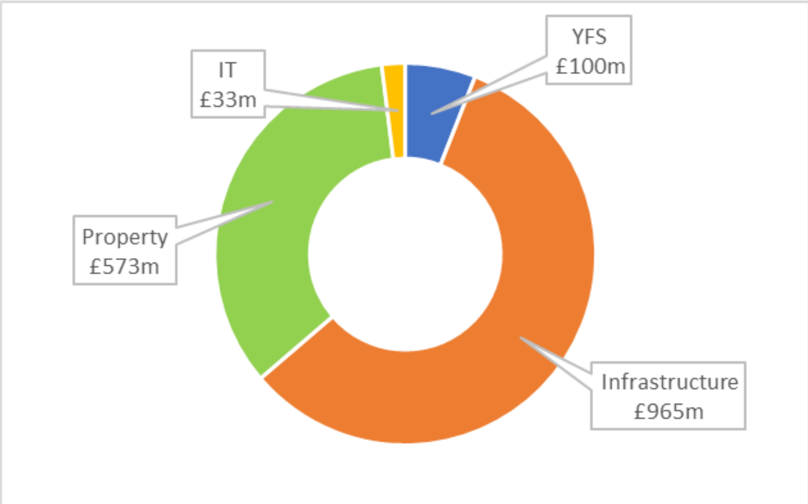
6.11 The draft Capital Programme is set out in Annex 2. Further work is required to review proposed allocations, delivery plans and to comprehensively demonstrate the benefit of new schemes. The outcome of this work will be presented in detail to Cabinet in January as part of the Final Budget Report.

6.12 The proposed Capital Programme has increased from £1.4bn in the MTFS approved by Council in February 2020 to c.£1.7bn in the latest proposals. The revised Capital Programme is split between proposed budget of £960m, pipeline of £611m and a £100m allocation for Your Fund Surrey. The majority of the increase from February relates to a £139m indicative allocation for Farnham infrastructure projects (of which an indicative £30m-£35m is likely to result in increased borrowing, dependent upon the level of grant funding available) and c£8m indicative allocations for Climate Change schemes (funded from borrowing). Both proposed additions are held in the pipeline and will be subject to rigorous scrutiny before they become part of the approved budget. These new proposals increase borrowing over previously approved estimates by c.£40m at a cost of £1.7m per year when the schemes are complete (phased in from 2022/23 onwards).

6.13 The Capital Programme over the MTFS period is presented below:

Table 4: MTFS Indicative Capital Programme by Strategic Group

Strategic Capital Group	MTFS (£m)
Infrastructure	965
Property	573
IT	33
Your Fund Surrey (YFS)	100
Total MTFS Capital Programme	1,671



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6.14 Annex 2 also sets out proposed funding for the Capital Programme. Capital spending plans will lead to an increase in borrowing costs over the MTFS period from £35m in 2020/21 (funding existing borrowing) to £74m by 2025/26. Excluding the new proposals set out in paragraph 6.13, the revenue costs were factored into the Medium-Term Financial Strategy approved by Council in February 2020. Offsetting the increase in borrowing costs; many of the schemes are crucial to delivering revenue efficiencies, cost containment or income generation. A key part of finalising the Capital Programme will be to test the justification, affordability and prudence of plans to increase borrowing. This will be reflected in the Final Budget and in the Treasury Management Strategy and associated prudential indicators; both set to be approved in January 2021.

Your Fund Surrey (YFS)

6.15 "Your Fund Surrey", (formerly known as the Community Projects Fund), is a five year £100m capital fund announced by the Council in its 2020/21 Budget. The broad timeline for the YFS launch begins with a digital campaign to promote the fund. The fund will open for applications in February 2021 with the first award to successful applicants expected in late May 2021. The fund will run from 2021/22 to 2025/26 with £20m available each year over the period (with flexibility to re-phase where necessary). YFS is a key part of the programme to achieve the Council's priority objective of empowering communities to be able to tackle local issues and support one another. The fund aims 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.

6.16 Decision making and governance will include scalable measures that reflect the scope of the bids to ensure a streamlined process. The YFS Panel will provide recommendations to a two-tier delegated authority to approve bids and transfer appropriate amounts to the approved capital budget for successful applicants. The proposed delegated authority is as follows:

- Projects between £10K and £1m – delegated to the appropriate Executive Director in consultation with the relevant Cabinet Member(s)
- Projects over £1m – decision taken by Cabinet

2021/22 Capital Budget and MTFS to 2025/26

6.17 A total of £960m of schemes are included in the proposed approved capital budget over the MTFS (i.e. excluding pipeline amounts). 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. This is particularly important considering the impact of Covid-19 on deliverability. The table below shows a breakdown of budget schemes into the three SCGs over the MTFS period:

Table 5: MTFS Indicative Capital Budget by Strategic Capital Group

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Strategic Capital Group	Budget (£m)
Infrastructure	576
Property	351
IT	33
Total Budget	960

6.18 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 based on estimated budget spend over the MTFS period are as follows:

- £183m - Surrey Flood Alleviation - River Thames
- £169m - Highway Maintenance
- £124m - Schools Basic Need
- £84m - Recurring Capital Maintenance Schools
- £61m - SEND Strategy
- £49m - Bridge/Structures Maintenance
- £47m - Recurring Capital Maintenance Corporate
- £46m - A320 North of Woking and Junction 11 of M25
- £18m - Surrey Flood Alleviation - Wider Schemes
- £17m - Surrey Fire - Purchase of New Fire Engines & Equipment

6.19 2021/22 is an ambitious year for the Council, with £199m in the draft capital budget. 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 2020/21:

Table 6: 2021/22 Indicative Capital Budget by Strategic Capital Group

Strategic Capital Group	2021/22 Budget (£m)
Infrastructure	89
Property	96
IT	14
Total Budget	199

6.20 Successful delivery of the 2021/22 budget is a key part of ensuring the Capital Programme overall remains on course. The focus of the 2021/22 budget will be on the schemes that comprise the majority of forecast spend. The top 10 schemes account for c.£151m, or 76% of the 2021/22 budget:

- £34m - Highway Maintenance
- £31m - Schools Basic Need
- £22m - SEND Strategy
- £14m - Recurring Capital Maintenance Schools
- £10m - Recurring Capital Maintenance Corporate
- £9m - Relocation an upgrade of SFRS functions currently at Wray Park
- £9m - Digital Business & Insights Programme - ERP Replacement
- £9m - Bridge/Structures Maintenance
- £8m - Local Enterprise Partnerships Funded Schemes
- £8m - Street Lighting LED Conversion

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Pipeline Schemes

6.21 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 7: MTFS Indicative Capital Pipeline by Strategic Capital Group

Strategic Capital Group	Pipeline (£m)
Infrastructure	387
Property	224
Total Pipeline	611

6.22 Several projects are being explored to deliver on our climate change responsibilities and to create a Greener Future for residents. In addition to these, 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 schemes based on estimated spend over the MTFS period are shown below:

- £139m – An initial outline estimate of infrastructure works in Farnham including the A31 at Hickley's Corner
- £57m - A22 Strategic Developments
- £44m - Local Enterprise Partnerships Funded Schemes
- £42m - Ultra Low Emission Vehicles - Bus Companies
- £42m - Extra Care Housing -SCC Schemes
- £40m - Looked After Children (LAC) Schemes
- £38m - Corporate Asset Capital Programme Spend
- £35m - LCWIPS (Local Cycling and Walking Infrastructure Plans)

- £28m - Materials Recovery Facility at Trumps Farm
- £26m - Weybridge - redevelopment of town centre library site as a multifunctional Community Centre

6.23 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.

7. FINANCIAL PERFORMANCE 2020/21

7.1 The Month 6 Finance Update report is reported to the same Cabinet on 24th November. Headline performance is set out below.

7.2 **Revenue:** As at September 2020 (M6) the Council is forecasting a £3.5m business as usual overspend in 20/21 against the proposed budget baseline of £1,021.6m; an improvement of £1.2m from M5.

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7.3 **Covid-19** has resulted in unprecedented in-year changes to the revenue budget, including two major resets and a number of other allocations. The second of the two resets is proposed in the Month 6 Finance Update report.

7.4 As a result of Covid-19 the Council has so far incurred total costs, lost income and unachievable efficiency savings of **£78.0m**, funded through:

- £53.4m of general Government CV-19 funding (of which £0.9m used in 2019/20) leaving **£52.5m in the 2020/21 budget**
- **£25.5m** of specific Government CV-19 relating to Infection Control, Test and Trace funding and grants for active travel and bus services.

7.5 A fourth tranche of Covid-19 emergency funding (£5.3m for Surrey) was announced in October and will supplement the CV-19 reserve. In September, the first Covid-19 Income Compensation Scheme (ICS) claim for £4.6m was submitted to Government. Further claims are likely to follow and the total amount due for the year will be confirmed by a reconciliation and audit at the end of the year. As the situation is still developing, management are keeping the budget under close review throughout the remainder of the year.

7.6 **Capital:** The Council approved a capital budget for 2020/21 of £175.7m in February 2020. This has been restated to £226.3m to reflect the revised M5 forecasts, recognising the impact of Covid-19 and the inclusion of the acquisition and associated costs of the strategic acquisition of the Woodhatch site in Reigate. Against the revised budget, forecast capital spend is £226.8m; an increase of £0.5m across SCGs.

7.7 The 2020/21 expected forecast outturn for both revenue and capital give us confidence that the underlying budget is realistic and deliverable; providing a solid base on which to build the 2021/22 budget. Where Directorate variances are forecast to have an ongoing effect, these are built into the starting point for 2021/22 and included in the gap.

8. MEDIUM TERM FINANCIAL OUTLOOK 2021/22 TO 2025/26

8.1 Over the medium-term, the gap between expected Directorate spending pressures and projected funding grows significantly. By 2025/26, the Council will need to close a gap of c.£170m. This is driven by:

- Growth pressures: including demand and inflation: £244m
- Plus, expected reduction in funding: £39m
- Less efficiencies identified to date: £113m

8.2 Although our immediate priority is understandably closing the gap and setting a balanced budget for 2021/22; 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.

Table 8: MTFS Gap to 2025/26 10

			Total				
	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Budget Envelope	**968.4**	**971.6**	**960.3**	**951.7**	**933.8**	**929.0**	
Brought forward budget	968.4	968.4	989.9	1,007.7	1,034.5	1,066.8	
Plus growth (inc inflation)		62.5	47.6	45.5	44.5	43.9	**243.9**
Less identified efficiencies		(41.0)	(29.7)	(18.7)	(12.3)	(11.5)	**(113.2)**
Total budget requirement		**989.9**	**1,007.7**	**1,034.5**	**1,066.8**	**1,099.1**	
Reductions still to find		18.3	29.1	35.4	50.2	37.0	**170.1**

8.3 The unprecedented level of uncertainty throughout the 2021/22 budget planning process continues over the MTFS. Whilst we are optimistic that council tax will start to show signs of improvement within a one to two years, a second delay to Local Government Reform (FFR and Business Rates reset) and the possibility of receiving a single-year settlement this year leaves the Council facing further uncertainty going into 2022/23, which undermines effective planning. The following is considered to represent likely outcomes at this point and will subject to continuous review as any new intelligence emerges.

Table 9: MTFS funding to 2025/26

Likely funding breakdown	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Council tax precept	760.9	775.1	798.7	816.6	834.2	855.1
Business Rates	116.2	115.6	133.3	115.8	84.8	59.2
Grant Funding	88.2	93.4	25.8	25.0	13.1	13.1
Funding before collection fund	**965.4**	**984.1**	**957.8**	**957.4**	**932.1**	**927.4**
CT collection fund	3.0	(10.8)	2.2	(5.9)	1.6	1.6
BR collection fund	0	(1.7)	0.3	0.3	0.0	0.0
Total funding	**968.4**	**971.6**	**960.3**	**951.7**	**933.8**	**929.0**

**2020/21 budget was approved at £968.4m and subsequently increased to reflect CV-19 grant funding and associated expenditure. The funding was one-off and does not increase totals for 2021/22 or beyond.*

Council tax

8.4 The scenario considered to be most likely is that council tax continues to increase within a referendum limit of 1.99% on annual increases (as is expected to be the case for 2021/22). Over 2021/22 and the medium-term, no increase has been assumed in relation to the ASC precept. We are expecting to hear more on this as part of the Spending Review on 24th November

8.5 In line with 2021/22 assumptions, we anticipate that the pandemic and the recession lead to increasing levels of Local Council Tax Support and that house building growth would be offset by this; resulting in a relatively flat base going into 2022/23. Thereafter, modest growth ranging from 0.25% to 0.5% has been assumed after 2023/24.

8.6 The collection fund is expected to move between deficit and surplus between now and 2023/24 due to the deficit spread unwinding and recoupment of arrears increasing. We expect this to stabilise with modest surpluses thereafter.

Local Government Reform (Fair Funding Review, Business Rates Reset and Social Care Reform)

8.7 The review of Local Government funding distribution, the Fair Funding Review (FFR), and the move to 75% retention of business rates has been delayed for a second time although unlike the previous delay, the Government has not indicated when reform is likely to be implemented. The current working assumption is that the delay is for a further 12 months, with reform taking effect as of April 2022.

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8.8 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/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 somewhat reduced.

8.9 In relation to Social Care, in order to avoid negative impacts, Surrey, like all local authorities, is reliant on the government to safeguard social care in the long term by finally implementing the fundamental changes and investment to the system in England that have been long-promised but not yet delivered. Successive governments have repeatedly promised a Green Paper on ASC reform, but it remains unclear when this will be brought forward.

Business rates

8.10 The level of business rates retained changes is part of the reform mentioned above. At this point we see an increase to our business rates and a decrease to grant income as Public Health grant will be 'rolled-in', and we expect Business Rates Multiplier and Social Care grants to also part of the overall reform. The level of business rates retained has a direct relationship with FFR and as such we expect this funding to reduce over the remainder of the MTFS as transitional arrangements unwind.

8.11 The uncertainty over the details and timing of the move to 75% business rates retention is further complicated by the delay to a revaluation of the rateable values of all business and other non-domestic property that was due to take place in 2021. Legislation had been introduced to bring the next business rates revaluation forward by one year from 2022 to 2021 but has now been postponed 'to ensure businesses have more certainty during this difficult time.' The delay is understandable with changing circumstances as a result of the coronavirus pandemic. Despite this, longer periods between revaluations could increase the level of funding the District and Borough councils choose to set aside to deal with appeals.

8.12 We expect the business rates collection fund to have a minor surplus in 2022/23 and 2023/24 as a result of the deficit spread being offset by the recoupment of arrears in the subsequent year.

Grant income

8.13 The grants the we do not expect to be subsumed into overall funding reform are:

- New Homes Bonus – we anticipate legacy payments only which fully unwind in 2023/24
- Dedicated schools grant (central share) expected to continue over the MTFS
- Private Finance Initiative – continues over the duration of the MTFS however the largest element, relating to Waste, ends in 2023/24 at which point only Street Lighting credits remain.

9. ENGAGEMENT AND CONSULTATION

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9.1 We have engaged with residents over the summer to understand the impact of Covid-19 and their future priorities for the council. This includes a survey carried out with approximately 2,200 Surrey residents looking at behaviours, attitudes and opinions during the period of the pandemic and a comprehensive Community Impact Assessment to fully understand the initial impact of Covid-19 on Surrey's communities, particularly for vulnerable populations and places.

9.2 The results of the survey have highlighted that during the pandemic that some residents, in particular those that have had to shield have felt disconnected from their local community while there has been a significant impact on mental health & wellbeing, notably amongst residents aged 16-34 and those in lower income households. Support for priority groups or more vulnerable residents was recognised as a priority which has influenced the refreshing of our Organisation Strategy around the principle of 'no-one left behind'.

9.3 The reported impact on access to healthcare services is significant with the result there has been low levels of use for out of hours GPs, mental health services and services for carers, despite those concerned having a relevant health issue. Tackling health inequality is one of our new organisational priorities in order drive work across the system to reduce widening health inequalities including increasing our focus on addressing mental health issues.

9.4 Respondents have highlighted the importance of their support networks, including family, friends and neighbours as well as the services they have received during the crisis from both the public and VCFS. It is this emerging community spirit that we are looking to build on through our priority to reinvigorate our relationship with residents and empowering communities to tackle local issues and support one another.

9.5 The results of the survey highlight that resident support for local businesses is strong and how local recovery can be encouraged through innovation, support and funding. Growing a sustainable economy so everyone can benefit is a key focus for us and how we can support people and businesses across Surrey to grow during the economic recovery.

9.6 The Community Impact Assessment (CIA) explores health, social and economic impacts of Covid-19 among communities across Surrey and has helped further shape the refreshed

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Organisation Strategy around the overarching priority of tackling inequality and no-one being left behind. The findings from the CIA expand on the results of the temperature check survey, highlighting the negative impact that lockdown has had on mental health, as well as the health inequality between the impact on certain groups, such as those that are vulnerable or from BAME communities when compared to people more widely. The CIA has also highlighted the extent of overlapping vulnerabilities and complexity of cases, for example an instance of domestic abuse also relating to an instance of homelessness and substance misuse at the same time.

9.7 During November and December 2020, we will engage further with residents, businesses, Districts and Borough councils, 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. This engagement will include an online survey, community roadshows with the Leader and other engagement forums. The results from this engagement will inform the Budget and MTFS that is published in February 2021.

10. NEXT STEPS

10.1 The Final 2021/22 Budget Report and Medium-Term Financial Strategy will be presented to Cabinet in January 2021 and ultimately approved by Council in February 2021. At this point we are expecting to bring a balanced budget for 2021/22 to Cabinet and full Council for approval. The focus for the intervening period is to resolve the budget gap of £18.3m. This is likely to be achieved through a balance of the following factors:

- Review income and funding assumptions; particularly in light of recent developments in the national response to Covid-19 and the Spending Review on 24th November
- Ensure that contingencies in the 2021/22 budget are sufficient to deal with continuing uncertainty around the economy and the impact of Covid-19
- Review Directorate budget envelopes for further efficiencies
- Develop ideas for cross cutting opportunities to deliver additional efficiencies across commissioning activity and pursue four areas of work identified to progress:
    - Inflation planning and negotiation: Establishing an annual approach setting out the Council’s position on contract inflation, informed by evidence of what is happening in our context that might effect costs – noting that there will need to be flexibility for Directorate areas to use their discretion in setting inflation levels, provided that the first two are in place; and working with common suppliers across directorates on a relationship led approach
    - Closer links with District and Borough Councils to procure and influence market: a consistent approach where we can secure better value for money through collaboration, not just shifting costs between different parts of the system; which is underpinned by shared ambitions we are seeking to achieve for people and places of Surrey
    - Working in partnership with other councils – maximising a regional approach to managing the market. This should impact the cost of provision and enable shared contract management, best practice and learning, and make sense of regional vs local in terms of outcomes and longer-term costs

- Revisiting the Supplier Collaboration Programme: identifying opportunities within existing contracts around: consistent commercial challenge; supply base cost reductions; and seeking innovation and new ways of working to deliver

These ideas will be developed into delivery plans which define additional financial benefit across Services through the sharing and development of practice and consistent approaches. It is expected that efficiencies will start to be delivered in 2021/22 and continue through to 2022/2023, dependent on contracts, suppliers and partners.

- Review emerging guidance on the treatment of the DSG High Needs Block Deficit
- Engage with Government to clearly set out the impact of uncertainty on our ability to plan sustainably over the medium-term
- Plan for expected funding announcements expected from Government in December; particularly the potential to apply a further Adult Social Care Precept and the Government's proposals for mitigating the continuing financial impact of Covid-19.

10.2 The Capital Programme and emerging proposals will continue to be subject to robust scrutiny to ensure that benefits are clearly demonstrated and the impact on the revenue budget is fully understood, justifiable and prudent. 10

10.3 Throughout December, Select Committees will scrutinise the Draft Budget proposals and the outcome of that scrutiny will be recognised in the Final Budget. Cabinet members will be consulted on the development of any further efficiency proposals.

10.4 A report on the cumulative equality implications of the efficiency proposals to identify multiple impacts on the same groups, as well as individual Impact Assessments for proposals that need them, will be presented to Cabinet in January.

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