



OFFICER REPORT TO COUNCIL

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

KEY ISSUE/DECISION:

The budget and MTFs proposals set out the Council's ambitious, sustainable and resilient medium-term financial plans. The budget for 2021/22 and the five-year strategy has been developed in an environment of unprecedented uncertainty; with the financial impact of Covid-19 developing on a daily basis. Nevertheless, the Council's resilience is improving, and we continue to make demonstrable improvements in our approach to planning, building and using the budget to deliver the Council's new priority objectives:

- **Growing a sustainable economy so everyone can benefit** – support people and businesses across Surrey to grow during the economic recovery and re-prioritise infrastructure plans to adapt to the changing needs and demands of residents;
- **Tackling health inequality** – Drive work across the system to reduce widening health inequalities, increasing our focus on addressing mental health and accelerating health and social care integration to reduce demand on services while improving health outcomes for residents;
- **Enabling a greener future** – Build on behaviour changes and lessons learnt during lockdown to further progress work to tackle environmental challenges, improve air quality and focus on green energy to make sure we achieve our net zero targets; and
- **Empowering communities** – Reinvigorate our relationship with residents, empowering communities to tackle local issues and support one another, while making it easier for everyone to play an active role in decisions that will shape Surrey's future.

The 2021/22 budget has been developed through an integrated approach across the Council, based on a set of Core Planning Assumptions which set out likely changes to the environment in which we deliver our priorities. 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.

Continuing a trend set over several previous financial years, Local Government funding remains highly uncertain over the medium-term, with a number of factors likely to result in significant changes to our funding position beyond 2021/22.

Despite the longer-term uncertainty, the overall outlook for 2021/22 is one of stability, with the revenue budget growing overall by 3.6%. The budget also reconfirms and expands the commitment to an ambitious five-year capital programme that delivers corporate priorities, outcomes for residents and businesses and contributes to long-term delivery of efficient services. This will enable further transformation over the medium-term in a bid to overcome financial uncertainty and aimed at delivering the priorities for Surrey, as set out in the [Community Vision for Surrey in 2030](#) (the Vision).

This report is to enable Council to approve:

- The Revenue and Capital Budgets for 2021/22, including efficiency proposals;
- The Council Tax Precept level for 2021/22, including the precept due from each Surrey District and Borough;
- The Council's Flexible use of Capital Receipt Strategy, including the level of investment required to deliver the Transformation Programme and the move back into the County;
- The Council's Capital Programme for 2021/22-2025/26, which reconfirms significant investment in the community; including through a £100 million commitment to Your Fund Surrey; and
- The Council's Capital, Investment and Treasury Management Strategies, which provide an overview of how capital expenditure, capital financing and treasury management activity contribute to the delivery of our services.

In agreeing to the recommendations of the attached 2021/22 Final Budget Report and Medium-Term Financial Strategy to 2025/26, supported by Annexes, Cabinet was informed by public consultation and engagement exercises. The equality impact assessments flowing from this and implications on the budget are detailed and attached in **Annex J**. The decisions and the attached financial strategy support the achievement of the goals set out in the Vision and underpin the priorities set out in the Council's Organisation Strategy and refreshed Transformation Programme.

BACKGROUND:

The Council approved a budget on 4 February 2020 for 2020/21 that set a course which would deliver the Community Vision 2030 through stable revenue budgets and a wide-ranging capital programme.

Successive budgets have moved the Council away from use of reserves and other one-off measures and the 2021/22 budget continues this trend.

The current year's budget (for 2020/21) has proved resilient and deliverable in the face of the huge social and financial impact of Covid-19; visibly demonstrating the improved sustainability of the Council's finances.

In the light of continued uncertainty on the impact of Covid-19 and medium-term funding, a commitment to maintaining and growing the financial resilience of the organisation is as important as ever. The 2021/22 budget reconfirms the commitment to delivering the Transformation Programme to secure longer-term sustainability and effectiveness of services.

RECOMMENDATIONS:

Following the Cabinet Meeting on 26 January 2021, the recommendations to Council on 9 February 2021 are:

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

1. The Executive Director of Resources' (Section 151 Officer) conclusion that estimates included in the Final Budget Report and Medium-Term Financial Strategy are sufficiently robust in setting the budget for 2021/22; and
2. That it is the view of the Executive Director of Resources (Section 151 Officer), that the level of reserves is adequate to meet the Council's needs for 2021/22. These reserves include the following amounts, (totalling £91.9m) set aside specifically to provide financial resilience:
 - a General Fund Balance of £24.2m;
 - a budget contingency of £20.4m with an estimated £33.4m brought forward;
 - a specific contingency for the impact of Covid-19 of £4.9m; and
 - a provision of £9m to meet risks in delivering the Dedicated Schools Grant – High Needs Block cost containment plan.

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

3. Approves the net revenue budget requirement be set at **£1,003.6 million** (net cost of services after service specific government grants) for 2021/22 (Annex B), subject to confirmation of the Final Local Government Financial Settlement;
4. Approves the total Council Tax funding requirement be set at **£777.6 million** for 2021/22. This is an increase of 2.49%, made up of an increase in the level of core Council Tax of 1.99% to cover core Council services and an increase of 0.5% in the precept proposed by Central Government to cover the growing cost of Adult Social Care (Annex E);
5. Notes that for the purpose of section 52ZB of the Local Government Finance Act 1992, the Council formally determines that the increase in

core Council Tax is not such as to trigger a referendum (i.e. not greater than 2%);

6. Sets the Surrey County Council precept for Band D Council Tax at £1,549.08, which represents a 2.49% uplift. This is a rise of £0.72 a week from the 2020/21 precept of £1,511.46. This includes £139.01 for the Adult Social Care precept, which has increased by £7.55.
7. Agree to maintain the Council Tax rate set after the Final Local Government Finance Settlement;
8. The Council Tax for each category of dwelling as set out in the table below:

Valuation band	Core precept	ASC precept	Overall precept
A	£940.05	£92.67	£1,032.72
B	£1,096.72	£108.12	£1,204.84
C	£1,253.40	£123.56	£1,376.96
D	£1,410.07	£139.01	£1,549.08
E	£1,723.42	£169.90	£1,893.32
F	£2,036.77	£200.79	£2,237.56
G	£2,350.12	£231.68	£2,581.80
H	£2,820.14	£278.02	£3,098.16

9. The payment for each billing authority, including any balances on the Collection Fund, as set out in Annex E;
10. Delegate powers to the Leader and Executive Director of Resources (Section 151 Officer) to finalise budget proposals and recommendations to County Council, updated to take into account new information in the Final Local Government Finance Settlement;
11. The Flexible Use of Capital Receipts Strategy for 2021/22 to meet the statutory guidelines for the use of such receipts to fund transformation and the move back into the County (Annex F);
12. The Total Schools Budget of £537.3 million to meet the Council's statutory requirement on schools funding;
13. The overall indicative Budget Envelopes for Executive Directorates and individual services for the 2021/22 budget (Annex B); and
14. The total £1.905 billion proposed five-year Capital Programme (comprising £1,026.2m of budget and £879.2m pipeline) and approves the £184.9 million capital budget in 2021/22 (Annex C).

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

15. The Capital and Investment Strategy (Annex G), which provides an overview of how risks associated with capital expenditure, financing,

treasury and commercial investments will be managed as well as how they contribute towards the delivery of services; and

16. The policy for making a prudent level of revenue provision for the repayment of debt (the Minimum Revenue Provision (MRP) Policy) (Annex I)

SECTION 151 OFFICER COMMENTARY:

Continued Improvement, Increasing Resilience and a Coordinated Approach

The Council is under a legal obligation to set a balanced budget and Council Tax levels for the 2021/22 financial year. The setting of the budget is a decision reserved for County Council. Following consultation with Select Committees the final budget proposals are included in the 2021/22 Final Budget and Medium-Term Financial Strategy to 2025/26 and associated Annexes.

The successive budgets for 2019/20 and 2020/21 set the Council on a path towards continuing improvement in financial resilience; the need for which has been starkly demonstrated by the Covid-19 pandemic. The Council's current forecast revenue outturn position for 2020/21 at Month 8 is for a small deficit of £3.4m; 0.33% of the budget and prior to any use of contingency. It is expected that this deficit will be closed to arrive at a balanced position by the end of the year.

The budget for 2021/22 builds on this solid foundation; recognising the continuing pressures faced in delivering services in adults and children's social care, services to children with special educational needs and disability, and the ongoing impact of Covid-19.

We are in a position to once more set a budget which meets our hallmarks for a "good" budget (refer to paragraph 5.3 of the 2021/22 Final Budget and Medium-Term Financial Strategy to 2025/26). This budget continues the move away from the defensive short-term outlook that had typified the Council's financial plans for several years; driving a proactive, investment led approach to delivering for Surrey residents and to achieving medium-term sustainability. The budget reconfirms and expands the commitment to the Capital Programme and the ambition laid out within it.

The budget has been developed with a step-change in the level of coordination and integration with the Organisation Strategy, the Transformation Programme and the delivery of service strategies. This improvement will continue into the medium-term with further integration of financial and strategic planning; making clear how the money we spend is linked to the delivery of corporate priorities and the Community Vision 2030.

CIPFA Resilience Index

CIPFA's Financial Resilience Index 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. Instead,

users of the index can undertake comparator analysis drawing their own conclusions.

The next release of the index, which considers the 2019/20 financial data, was due in December 2020. However, the main data source used to construct the index was delayed and not published at the time of writing.

As part of the Council's proactive approach to insight and intelligence, officers performed analysis of the publicly available provisional data, released in November. While there are limitations to the data, this provides the Council with early intelligence by which to measure progress, enabling conversations about resilience to take place without having to rely on the formal publication of the CIPFA tool.

The provisional data indicates that there has been considerable improvement between the 2018/19 and 2019/20 financial years. This is in line with expectations as more robust financial management arrangements have been put in place since 2018, an objective of which was to improve the Council's overall financial resilience.

The analysis indicates that the Council should retain its strong position on earmarked reserves and our scores have improved against the remaining two primary reserves indicators which focus on levels and changes in reserves. The Council's relative position when compared to all other County Councils shows improvement, most notably on the Level of Reserves indicator where the Council is expected to move from ranking 20 of 26, to ranking around mid-table. This improvement means that when the CIPFA index is released, we expect the Council to be positioned on the lower risk side of the index for all three reserves measures, possibly ranking within the top five on Reserves Sustainability and Change in Reserves. These measures cover the direction of travel for reserves, rather than the absolute value and so demonstrate that the Council is moving in the right direction; rather than in themselves being a commentary on reserves sufficiency. Although reserves are deemed sufficient for 2021/22, the uncertain funding position and level of efficiencies required over the MTFS mean that this improvement must continue.

Finance Improvement Programme

On the 23 June 2020, Cabinet considered a report formally closing down the Council's Finance Improvement Programme. A chapter that began with CIPFA's report on the Council's finances in 2018 was drawn to an end.

Recognition that the formal requirement for improvement had been successfully addressed does not deter from the need to aim for continual and further improvement across all aspects of Finance and financial management. To that end, the second phase of the Finance Improvement Plan (FIP2) was launched in August 2020.

FIP2 provides four key areas of improvement:

- **Process: Improved, faster, intuitive information** through the Digital, Business and Insights Programme;
- **Culture and Accountability: Good financial management is second nature** by strengthening and embedding budget accountability across the organisation;
- **People; Investing in skills and development** through continued development of the Finance Academy and building on behaviours, skills and knowledge across the Finance function; and
- **Insights; Greater strategic focus** by strengthening the ability of Finance teams to provide insightful advice, through access to tools learning and advice.

These workstreams are delivered across all parts of Finance and rely on maintaining and developing close working relationships and a partnership approach across the organisation. The planned improvements will help to ensure that the budget process and financial decisions continue to be driven by accurate and timely information and insightful advice.

Financial Management Model Code of Practice

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.'

CIPFA expect the first full year of compliance with the FM Code to be 2021/22 however recognise that the Covid-19 crisis has seen local authorities and their finance teams placed under extreme pressure which is ongoing and are considering whether 'working towards' full implementation from 2022/23 might be appropriate. The ultimate decision will rest with MHCLG and an announcement is expected in the imminently.

Throughout 2020, in anticipation that the first full year of compliance was expected in 2021/22, officers have reviewed the guidance to determine where SCC meet the standards. This review has concluded that:

- the Council can demonstrate overall compliance with the standards;
- evidence could be strengthened for a small number of indicators; and
- there are several areas where, as a result of various changes over the past two years including the Finance Improvement Programme and the Finance Academy, the Council's arrangements exceed the standards.

We will use the findings to review areas where evidence of compliance requires strengthening and are in a position to be early adopters if the decision is made to delay the first full year of compliance.

Value for Money (VFM) Judgement

In the 2018/19 External Audit conclusion, Surrey County Council received a qualified VFM judgement due to its OFSTED rating and Financial Resilience (based on the 2018/19 financial year).

In November 2020 our external auditors, Grant Thornton, highlighted the significant progress we have made in improving the financial resilience of the organisation and the robustness of our budget process.

Our VfM conclusion has improved significantly from last year; with the qualification relating to financial resilience removed. This is a testament to the effectiveness of successive budgets; the Finance Improvement Programme and the concerted effort that goes into delivering both.

The OFSTED rating could not be resolved for the 2019/20 audit due to the impact of Covid-19 on scheduling a formal inspection, however Grant Thornton recognise that recent evaluation by OFSTED inspections found that substantial progress had been made.

S25 Report – Risks and Robustness of Reserves

The Council is required to maintain an adequate level of Reserves to deal with future forecast or unexpected pressures. We are not permitted to allow spend to exceed available resources which would result in an overall deficit after reserves. Sections 32 and 43 of the Local Government Finance Act 1992 require authorities to have regard to the level of Reserves to meet estimated future spend when calculating the budget requirement. The attached Final Budget Report has been drafted on this basis.

The Council has set a balanced budget for 2021/22. Delivering the efficiency and transformation programmes is key to achieving the budget and to safeguarding the medium-term sustainability of the Council's finances. The contingency and earmarked reserves that we have set aside allow us to set ambitious efficiency targets within Directorate budget envelopes with the confidence that the risk of not achieving these targets can be managed from within contingencies.

Despite making good headway with building earmarked reserves, the uncertain impact of Covid-19 and the impact of insufficient Government grant to fund services for children with Special Educational Needs and/or Disabilities, make it as important as ever to continue to grow sustainability. Given the reduction in funding that the Council has experienced over recent years, retention of the Council's Reserves will be essential in order to mitigate risk, including future funding uncertainties.

The Council's earmarked reserves include the amounts detailed in Recommendation 2. On this basis, the Council's budget is considered to be robust.

A summary of Earmarked Reserves and the forecast on Reserves and Balances can be found in Annex D and detailed in Section 5.35 of the 2021/22 Final Budget Report.

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Sources/background papers:

- [2021/22 Final Budget and Medium-Term Strategy to 2025/26](#), Report to Cabinet 26 January 2021
- [Organisation Strategy 2021 - 2026](#), Report to Council 8th December 2020
- [A Community Vision for Surrey in 2030](#), Report to Council 9 October 2018
- [Provisional Local Government Finance Settlement 17 December 2020](#)

Annexes:

2021/22 Final Budget Report and Medium-Term Financial Strategy to 2025/26
Annex A – Pressures and Efficiencies 2021/22
Annex B – Detailed Revenue Budget 2021/22
Annex C – Capital Budget 2021/22-2025/26
Annex D – Projected Earmarked Reserves and Balances
Annex E – Council Tax Requirement
Annex F – Flexible Use of Capital Receipts
Annex G – Capital and Investment Strategy 2021/22
Annex H – Treasury Management Strategy Statement 2021/22
Annex I – Minimum Revenue Provision (MRP) Policy 2021/22
Annex J – Equalities Impact Assessment

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