Surrey County Council

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

1. EXECUTIVE SUMMARY

1.1 The 2021/22 Final Budget Report and Medium-Term Financial Strategy (MTFS) to 2025/26 sets out Surrey County Council (SCC)'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:

1.2 The 2021/22 budget has been developed through an integrated approach across Strategy, Transformation and Finance, based on 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.

1.3 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. These factors are set out in section 8 of this report and include in particular; the lack of a multi-year settlement, the uncertain timing and impact of the Government's fundamental review of funding and lack of clarity on the treatment of the Dedicated Schools Grant (DSG) High Needs Block (HNB) deficit.

1.4 Despite the longer-term uncertainty, the overall outlook for 2021/22 is one of stability; with Directorate budget envelopes increasing from 2020/21 levels. There remain significant challenges in managing growth in demand (particularly in Children's and Adults' 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 were tasked with identifying efficiencies to close their element of the overall budget gap. Where this has not been possible, additional funding has been identified and allocated.

1.5 The final budget for 2021/22 proposes total funding of £1,003.6m; a £35.2m (3.6%) increase from £968.4m in 2020/21. Included within this increase and offset by other factors (set out in section 8), c.£51.2m represents one-off Government funding for Covid-19 which does not improve the medium-term position after 2021/22. Despite remaining uncertainty on council tax and business rate income, the budget for 2021/22 is now balanced. In order to achieve a balanced budget, a council tax increase of 1.99% and an Adult Social Care Precept of 0.5% are necessary.

1.6 The Capital Programme for 2021/22 to 2025/26 is set out in Section 6 and Annex C. This sets out a £1,905.5m programme; of which £1,026.2m represents confirmed budgets and £879.2m represents pipeline schemes identified for further development.

1.7 A Capital Budget of £184.9m has been set for 2021/22 as identified in Annex C. The development of the Capital Programme has been based around achieving Council priorities whilst maintaining borrowing costs at a sustainable and prudent level.

1.8 The key elements of this Budget and MTFS report include:

- The refreshed Organisation Strategy (Section 2)
- An update on our Transformation plans (Section 3)
- Directorate Service Strategies aligned to both of the above (Section 4)
- The Financial Strategy for 2021/22– incorporating both revenue and capital (Sections 5 and 6)
- 2020/21 financial performance – revenue and capital (Section 7)
- The medium-term financial outlook to 2025/26 (Section 8)
- The schools budget (Section 9)
- The results of our budget consultation (Section 10)
- Budget Equality Impact Assessment (Section 11)

1.9 The Final Budget will be presented to Council for approval on 9 February 2021.

2. ORGANISATION STRATEGY 2021 – 2026

2.1 The Organisation Strategy sets out the Council's contribution to achieving the aims and ambitions of the Community Vision 2030 (the 2030 Vision). The Covid-19 pandemic has fundamentally shifted the strategic context in which we are operating, with much ongoing uncertainty. While our data and insight show that the 2030 Vision remains the right destination, 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 Since launching the strategy in 2018, and refreshing it in December 2019, we have made significant progress towards achieving our ambitions for the county, and as a Council. Throughout this report there are examples of how our services are overcoming significant financial challenges and implementing transformation programmes to make residents' lives better, while also achieving efficiencies. We have delivered major reforms to Children's services, Adult Social Care and the Fire Service to embed a preventative approach and support Surrey residents' independence. Through building stronger partnerships, we have been able to lead the way and innovate in health and social care integration, set bold shared commitments to tackle climate change, and strengthen local education and learning. Alongside this, we have improved our communication and engagement with residents to ensure our services reflect what they need and want.

2.3 This latest version of the organisation's strategy, agreed by Council in December 2020, reflects the changes in the context and environment that the organisation is operating in. The strategy focusses on a smaller set of priority objectives to set out a clear strategic direction for the Council. It draws on the learning from the response to and recovery from Covid-19 as well as the work and successes of the past two years, all of which have enabled us to continue to provide high quality services at the same time as making efficiencies to ensure the financial sustainability of the Council.

2.4 We continue to face financial challenges alongside rising demand for services, a situation that has worsened as a result of Covid-19. Although we have received additional funding from Government, this falls short of what we require to meet the lost income and increased demand that has been brought about by Covid-19. Our focus 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 measured against the impact that we have made and making a positive difference for residents through our activity to deliver on our priority objectives.

2.5 The priority objectives in the strategy are based on extensive research and engagement that has taken place with residents, businesses and partners over the summer. This has enabled us to develop a robust evidence base to understand the impact of Covid-19, the challenges and opportunities for residents, and how the future priorities for the Council can be targeted at these. This evidence base includes the findings of 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 (CIA).

2.6 To help us to continue to deliver the long-term aims for the county, the four priority objectives that form our new focus are:

- **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.

2.7 We have reaffirmed our commitment to tackling inequality and ensuring no one is left behind in the county, making this the guiding principle for everything we do. Covid-19 has widened existing inequalities in the county, and we must tackle these so we can deliver the ambitions of the 2030 vision and make Surrey a county where everyone can achieve their potential. To support this, the refreshed strategy sets four new equality objectives aiming to reduce health and economic inequalities.

2.8 As part of the commitment that no-one is left behind, there are a number of ongoing initiatives that are already having a positive impact. The most important of these is the relentless drive to improve outcomes for children and young people in the county which is being achieved through the continuing improvement and transformation journey within Children's Services, and this remains a key priority for the Council.

2.9 Transforming our organisation to reform its function, form, focus and culture is key to delivering the priority objectives set out in the strategy. It will enable us to add more value, make greater impact and improve services so they deliver the best possible long-term outcomes for residents. The current challenges of Covid-19 make it even more important that we achieve our ambitions to be an agile, flexible and responsive organisation that utilises innovations in digital and data to transform the way we design and deliver services. We want to improve the customer experience so that residents are more empowered and engaged, and build stronger partnerships with communities, partners and businesses so that we can better deliver on our shared ambitions.

2.10 Together these priority objectives and our transformation as an organisation will help us to meet more immediate challenges, enable us to more effectively prioritise our resources and activity and take advantage of opportunities that have emerged through the response to Covid-19.

3. TRANSFORMATION UPDATE

Background

3.1 The progress the Council has made in recent years has been underpinned by an ambitious and effective approach to transformation. Since its inception in 2018/19 the Transformation Programme has improved vital services for residents, introduced innovative new service models, built capacity and competency, and made a significant contribution to stabilising the Council's finances. This includes the achievement of £74m of ongoing efficiencies by the end of 2020/21 and containing costs in areas of growing demand, thereby ensuring we can operate within available resources and protect investments in key services.

3.2 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 therefore review and refresh the Transformation Programme annually, ensuring we continue to build on and improve what we do for our residents.

3.3 Linked to our commitment that no-one is left behind, there are a range of continuing transformation programmes that are specifically focused on improvements within our Children's and Adults' Services, these are already leading to better outcomes for children & young people, residents and service users. These programmes are complex and take time to deliver with many spanning multiple years, it is imperative we continue to drive delivery of these programmes through to completion as key priorities for the Council. We are committed to delivering long term, sustainable improvements in a range of service areas including those such as the ongoing statutory improvement journey to modernise our Fire and Rescue and Coronial Services.

Future Transformation Strategy

3.4 As part of the integrated strategic planning process (as set out in sections 1 and 2 above) we reviewed the goals and focus of the Transformation Programme – to both inform our overall strategy for transformation over the medium-term and to refresh the specific content of the proposed programme for 2021/22.

3.5 First and foremost, the review confirmed that further significant improvements and transformational change is required over the medium-term in order to deliver the Council's four priority objectives within available resources. Secondly, the focus of the Transformation Programme will need to continue to evolve over the coming years.

3.6 In the near-term and through 2021/22 the Transformation Programme will need to continue to drive key service improvements - raising performance and delivering significant efficiencies - and at the same time accelerate work to deliver the Council's four priority objectives on health inequality, empowering communities, economic growth and a greener future.

3.7 In the medium-term the focus will need to shift towards driving the deeper more fundamental changes and reforms to public services that will be needed to deliver the 2030 vision in collaboration with our communities and partners, while also responding to what will be a challenging financial context. The initial foundations for such reforms and a new operating model for the Council will start to be laid in 2021/22 and will feature increasingly in the Transformation Programme for 2022/23 onwards.

3.8 Our strategy for future transformation is a crucial companion to the MTFS and will support delivery of the goals set out in the Council's Organisation Strategy 2021-26 and the Surrey Health and Welling Strategy.

The Refreshed Programme for 2021/22

3.9 Based on the integrated planning work and review of transformation strategy, the Transformation Programme for 2021/22 will focus on three key themes:

- Continuing to implement a range of large-scale delivery programmes to contribute to vital service improvements and financial sustainability;
- Accelerating key programmes that directly support the Council's four strategic priorities; and
- Commencing several initiatives that will start to lay the foundations for future reforms to public services and a new operating model for the Council.

Three themed focus areas for transformation in 2021/22

Big Delivery Programmes

Typical characteristics
- Continue to improve service quality and consistency
- Programmes likely to be in delivery already
- Significant MTFS efficiencies return on investment
- Timeframe 0-2 years

Programmes
- Accommodation with Care and Support
- Care Pathways
- Adult Social Care Market Management
- Adults with Learning Disabilities and Autism
- Mental Health
- Enabling You with Technology
- Preparing for Adulthood
- Special Educational Needs and / or Disabilities
- Family Resilience
- Libraries & Cultural Services
- Community Protection
- Rethinking Transport
- Rethinking Waste

Organisation Strategy Priorities

Typical characteristics
- Drive the four organisational strategy priorities
- Programmes likely to be in design/develop phase
- Likely to require net investment
- Timeframe 2-5+ years

Programmes
- Economy and Growth
- Greener Futures
- Empowering Communities
- Health and Social Care Integration
- Domestic Abuse
- Countryside Enhancement
- Highways Re-procurement
- Becoming More Entrepreneurial

New Operating Model
(future thinking & reform)

Typical characteristics
- Enabling innovation and change
- Organisation preparedness for future reform
- Mix of delivery and design programmes
- Efficiencies medium term
- Timeframe 1-3 years

Programmes
- Agile Organisation Programme
- Customer Experience
- Digital
- Agile Workforce
- Data Insights
- Land and Property
- Resources Improvement Programme
- Adult social care - evaluate in house services
- Creating Environment, Transport and Infrastructure (ETI)

3.10 The overall programme has been designed to deliver directly on the Council's key strategic ambitions and make a significant contribution to the efficiency and cost avoidance targets in the MTFS. For 2021/22 this includes £14.9m of recurring revenue efficiencies.

3.11 We are planning ahead and have also identified efficiencies through some projects that will be achieved in future years through to 2025/26. Adding these to the £14.9m efficiencies to be achieved in 2021/22 we expect, as a minimum, to deliver a total of £75.3m efficiencies through transformation projects between 2021/22 and 2025/26.

3.12 These identified transformation medium-term efficiencies should be considered the minimum level that will be achieved. A number of Transformation programmes - in particular those that will underpin the shift to a new operating model - will over the next year create proposals for improved productivity and efficiencies that will provide additional contributions from 2022/23 onwards to ensure the Council can deliver on its ambitions within a constrained medium-term funding envelope.

Transformation investment

3.13 To deliver all of the planned programmes and achieve the associated £75.3m recurring efficiencies, a one-off transformation investment requirement of £21.1m has been calculated. This is heavily front-loaded into 2021/22 with £19.5m required in 2021/22. Note that it is expected the investment requirements from 2022/23 onwards will increase as programmes spanning these financial years are progressed.

Table 1 – Investment required in 2021/22 for Transformation Programme

Investment Requirement	£m
Already committed/agreed in previous years	3.1
Requested carry forwards from 2020/21	2.1
New investment bids	14.3
Total	**19.5**

3.14 There is currently £14.8m of transformation funding available in 2021/22, £10m of which is built into the base revenue budget (as agreed in the 2020-25 MTFS), plus a current forecast underspend from 2020/21 of £4.8m. If all programmes were fully funded based on their estimated funding requirements, then a funding gap of £4.7m exists for 2021/22. Based on analysis and careful consideration of the operating context it is proposed that we resolve this by "over-programming" transformation funding for 2021/22 by this amount. This means we will proceed with all the programmes but track progress closely and take actions throughout the year to ensure that transformation is delivered within available funding.

3.15 This approach will enable the Council to progress all the priority programmes and create the best possible opportunity to deliver the full range of benefits and efficiencies, while maintaining sensible and prudent financial control. This also provides flexibility during the course of the year, in response to both our own progress and the developing financial context and organisational requirements.

3.16 The following key factors underpinned the decision to adopt this flexible approach:

- There is evidence from recent years of underspending against the investment bids and estimations for required transformation funding;
- The proposed programme includes a number of projects in the earlier design phases when it is more difficult to estimate investment requirements precisely; and
- The existing £10m per annum revenue provision in the MTFS is a static amount introduced last year to set a marker of what might be available and required in any year, rather than based on a more precise assessment of that coming year's requirements for transformation.

Ensuring delivery

3.17 We will continue to use robust assurance mechanisms, co-ordinated through the Transformation Support Unit in collaboration with Finance, to track delivery of the programme and make any adjustments where required. Transformation governance arrangements are in place to oversee this including a Member Transformation Assurance Board (Chaired by the Leader of the Council) that meets monthly to help shape and review the overall portfolio of change, along with Select Committees continuing to inform and scrutinise programmes within their respective remits.

4. SERVICE STRATEGIES 2021-2026

4.1 Services are at the heart of Surrey's Organisation Strategy and Transformation Plan. Strategies for each of the main Directorates and Service areas are summarised below, setting out their approach to delivering the best outcomes for residents whilst living within their budget envelopes.

ADULT SOCIAL CARE

4.2 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".***

4.3 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. Covid-19 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.

4.4 ASC's 2021-26 MTFS seeks to build on and further progress the ambitious transformation programme that the service originally embarked upon 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.

4.5 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 Covid-19, 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.

4.6 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 as close to ASC's current 2020/21 budget of £372.1m as possible. This is a very significant challenge in the context of the pressures ASC faces. Total pressures are budgeted at £16.9m in 2021/22, £98.1m for the whole 2021-26 MTFS period. The majority of the pressures relate to care package expenditure, which is 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 £11.1m in 2021/22, £55.5m for 2021-26), and care package demand (budgeted at £7.3m in 2021/22, £32.9m for 2021-26).

4.7 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. £11.9m of efficiencies are budgeted in 2021/22 and £31.3m over the whole 2021-26 MTFS period. More will be needed in the medium-term in particular.

4.8 The majority of ASC's efficiencies (£8.7m in 2021/22 and £28.2m 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; and
- 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.

4.9 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.

4.10 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£83m for developing new affordable Extra Care provision for Older People and c£48m for developing new Independent Living provision for people with Learning Disabilities or Autism are being developed and have been included in the final 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.

4.11 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.

4.12 ASC's budgeted pressures and efficiencies mean that £5m more is planned to be spent in 2021/22 than the 2020/21 budget and the current budget proposals for the years beyond that to 2025/26 would currently require increased expenditure of £66.8m up to that point. 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 in the years beyond 2021/22 could be extended. 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 unclear when this will be brought forward.

PUBLIC HEALTH

4.13 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; and
- Protecting Surrey residents from communicable diseases and environmental hazards.

4.14 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; and
- Sexual health services including contraception and genitourinary medicine (GUM).
- NHS health checks.

4.15 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, as well as the deployment of Contain Outbreak Management Fund (COMF) monies in consultation with partners, which is related to national lockdown in November 2020 and subsequent tier system introduced by Government. At the same time, the PH service continues to provide responses seven-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 are 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. The PH service is reviewing its priorities for 2021/22 and beyond in light of Covid-19.

4.16 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; and
- 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.

4.17 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.

4.18 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.

4.19 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 and have seen demand increase considerably in recent months.

4.20 PH's 2020/21 budget envelope has been increased by the £2.4m grant increase to £32.6m. No further changes to SCC's PH grant funding or the PH service's expenditure are budgeted. It is expected that the PH grant will remain ringfenced in 2021/22, but based on the Government's current proposals it would become un-ringfenced in 2022/23; our assumption of when the Government will introduce a new funding model nationwide. In light of the recognised importance 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.

4.21 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.

CHILDREN, FAMILIES, LIFELONG LEARNING & CULTURE (CFLC)

4.22 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.

4.23 The global 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.

4.24 We have seven strategic priorities alongside our ongoing, business as usual, responsibilities within the Directorate. These seven are:

- Response to the Covid-19 Pandemic;
- Starting well: first 1000 days;
- Children's Services Improvement;
- Special Educational Needs and Disabilities transformation for children with additional needs;
- Emotional Health and Wellbeing;
- Libraries and Cultural Services transformation; and
- Enabling our people, utilising our technology and embedding equality and diversity for all.

4.25 **Special Education Needs and/or Disabilities 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 of services for children with special educational needs and disabilities 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 SCC, 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 Special Educational Needs and Disabilities, have continued to increase resulting in a forecast £32m overspend in 2020/21. In order to mitigate the risk associated with the HNB deficit, the Council is contributing £32m to an offsetting reserve out of its own resources. This represents an £8m additional contribution to the £24m budgeted in 2020/21. The £24m contribution was assumed to continue at the same level in the Draft Budget to Cabinet in November 2020. The ambition of the Transformation Programme is to bring this annual contribution down to a neutral position, before beginning to pay back the deficit. There remains some way to go to achieve this position. For 2021/22 there are £20m of efficiencies associated with the programme to maintain the current budgeted overspend position of £24m. The budget includes provision to increase the contribution by a further £9m, if necessary, to mitigate risks associated with delivering these efficiencies.
- As part of the Special Educational Needs and Disabilities transformation plan, on 29 September 2020, Cabinet approved the latest 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 additional needs could be placed closer to home;

4.26 **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. Managing the one-off pressure from increased Covid-19 referrals and the underlying growth in the numbers of children in our care 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; and
    - 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 about children and families into the system and ensuring resources are applied effectively

4.27 **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. The budget includes additional investment of £3m representing SCC's share of growth in the EWMH contract agreed in conjunction with Health.

4.28 CFLC continues to see significant cost pressures within placements for both Education (for children with additional needs) and Social Care (for children in our care). 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 Special Educational Needs and Disabilities and for children in our care. 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 Special Educational Needs and Disabilities and Looked After Children Capital Programmes.

ENVIRONMENT, TRANSPORT AND INFRASTRUCTURE

4.29 Environment, Transport & Infrastructure (ETI) includes Highways & Transport, Environment, and Infrastructure Planning & Major Projects. ETI aims to **shape places, improve the environment** and reach **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 **residents, peers, and business to deliver outcomes**.

4.30 ETI's core purpose is:

1) Intelligence led strategic planning to deliver on a place of the future for the people of Surrey;
2) Delivering on Surrey's sustainability and climate ambitions, providing leadership to accelerate targets where possible and grow the green economy;
3) Improve the natural environment within Surrey and maximise the value of this resource to support health and economic outcomes;
4) Provide a seamless, safe, accessible transport network that promotes active travel;
5) Design and deliver innovative and future proofed transport networks;
6) Achieve financial sustainability and maximise opportunities to secure funding for partnerships and communities;
7) Support the provision of low impact and sustainable housing, commercial infrastructure, digital connectivity and community projects to build resilience and promote prosperity; and
8) Make it easy for residents and business to minimise resource usage and waste; and foster the circular economy.

4.31 ETI's five-year financial strategy 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 are expected to continue into the medium term; and
- a significant proportion of the ETI revenue budget is linked to ongoing contracts, including highway maintenance, transport and waste management. The proposed financial strategy also therefore reflects inflationary increases to costs where necessary, as well as recent increases to waste management costs.

4.32 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, other highways efficiencies, 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.

4.33 The proposed ETI Capital Programme supports these objectives through continued investment in infrastructure, as set out in section 6. The Capital Budget totals £592.8m 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 Fund scheme, and public rights of way. The Capital Pipeline (comprised of schemes under development and subject to full business case approval) totals £424.2m 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.

COMMUNITY PROTECTION GROUP

4.34 Community Protection Group includes Surrey Fire & Rescue Service, Trading Standards, Emergency Management, Coroners, Health & Safety, Military Covenant and Resilience. At its core, the Group is positioned to work together to deliver against the Council's Organisation Strategy 2021-26 and the 2030 Community Vision.

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

4.36 The Group's MTFS 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, which will 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.

4.37 Through the current Transformation Programme 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

4.38 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 2030 vision, the Directorate is focused on ensuring that corporate support and enabling services are of the highest calibre. The 2021/22 budget for the Resources Directorate delivers net efficiencies of £0.8m, reducing the Directorate's budget requirement and enabling a redistribution of funding to other areas.

4.39 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, and 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 resident experience and efficiency through digital innovation.

4.40 Contributing to a Directorate improvement programme; a Team Charter has been developed which sets out the ambitions of the Directorate to be known for its consistent delivery of high quality, trusted advice and service and as a key enabler supporting the Council to achieve the best outcomes for local residents.

4.41 Our promise is that we will always be:

- **Solution oriented**, enabling Services to find and deliver what is best for Surrey;
- **Proactive,** engaged in conversations from the outset and anticipating requirements wherever we can;
- **Insightful**, relentlessly seeking to learn and apply best practice, matched to a sound understanding of the business;
- **Focussed on user experience**, whether this requires strategic advice or resolution of an operational issue; and
- **Highly efficient and effective** at providing all the functions we are responsible for.

4.42 Through this improvement programme the Directorate are looking to provide efficient services without reducing the service offer. Initially the programme will focus on quality of service delivery then in future years the emphasis will shift to home in on realising efficiencies, in conjunction with the implementation of the new ERP solution (Unit4 Business World) and the Agile Office Estate Strategy. This reflects the fact that whilst with new technology there will be opportunities for efficiency, a bigger impact can be made by high quality services supporting the wider organisational Transformation Programme.

4.43 Covid-19 continues to impact 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 parental choice and changing school environments due to social distancing compliance. In addition, there are new expectations on the IT&D team as a result of changing behaviours arising from new ways of working experienced during lockdown.

4.44 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;
- driving a programme of digital transformation, improving data insight and enabling behavioural & process change; 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)

4.45 The services of the Transformation, Partnership & Prosperity (TPP) Directorate are not currently consolidated within one Directorate; being distributed 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.

4.46 These services provide resources, activities and expertise that are vital to drive forward, enable and support the Council to achieve the 2030 vision, the refreshed Organisation Strategy and financial objectives.

4.47 The critical contributions of the services within TPP have been especially highlighted by Covid-19 and will continue to have a crucial role over the coming year. Customer Services are supporting residents dealing with Covid-19 and vaccine enquiries, supporting vulnerable residents with guidance, advice and access to services and complementing the national contact tracing effort; the Insights, Analytics & Intelligence team are provided data and intelligence on the impact Covid-19 is having in our communities; Communications provide timely, accurate and reassuring messages and information across the county from an acknowledged authoritative and trustworthy source; HR&OD are supporting employees and teams through the most challenging of times and Economic Development are working to support businesses and the Surrey economy, both in the short term and in setting out strategic goals, based on high quality research and evidence.

4.48 There is a need to further invest in these areas to deliver on the Council's recently confirmed ambitions, specifically;

- Economic recovery and growth, drawing on the findings of the Surrey Future Economy Commission and research by the University of Surrey. The budget includes £0.3m of additional investment in Economic Growth; and
- 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.

4.49 Building on the strong partnership already in place with Community Foundation for Surrey (CFS) and the established precedent of creating match-funding arrangements with them to maximise value and impact for residents, it is proposed to transfer £0.5m of Covid-19 funds, granted by the Government to the County Council, to CFS. This funding will be used to enable voluntary and community groups to support our residents and communities to cope and recover from Covid-19 during 2021/22, ensuring that no one is left behind. In addition, it will be used to support initial start-up costs for new projects that have been brought forward through Your Fund Surrey and support the Council's four key strategic priorities. Grants will be matched 50:50 by CFS.

4.50 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.

4.51 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.

5. FINANCIAL STRATEGY AND FINAL BUDGET 2021/22

Context

5.1 This section outlines our approach to setting the budget and 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. We also set out the second phase of the Finance Improvement Programme which strengthens our approach to financial decision making and budget accountability.

5.2 The outcome of the budget process for 2021/22 is outlined in the Revenue Budget Headlines section, below, supported by Annexes A and B which set out pressures and efficiencies for each Directorate and a detailed revenue budget. 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 and Principles for Budget Setting

5.3 As part of phase one of our Finance Improvement Programme, 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 2 – 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 the Organisation Strategy, the Transformation Programme and corporate priorities; developed in partnership across the organisation • The budget has been subject to numerous iterations through Cabinet and Corporate Leadership Team over the last nine months to balance the budget and clarify assumptions • The budget is based on the comprehensive application of a recognised framework (PESTLE – see para 5.12) 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 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 • 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 10 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 engaged 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 were prioritising our resources in the right places

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 both the draft and final budget. These have proven to be successful and have been reaffirmed for the current MTFS period.

5.5 The principles are:

- An integrated approach linking Organisation Strategy, Service and Transformation Programmes 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.

5.6 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;
- Corporate risk provision/contingencies held centrally; and
- A corporate redundancy provision held centrally.

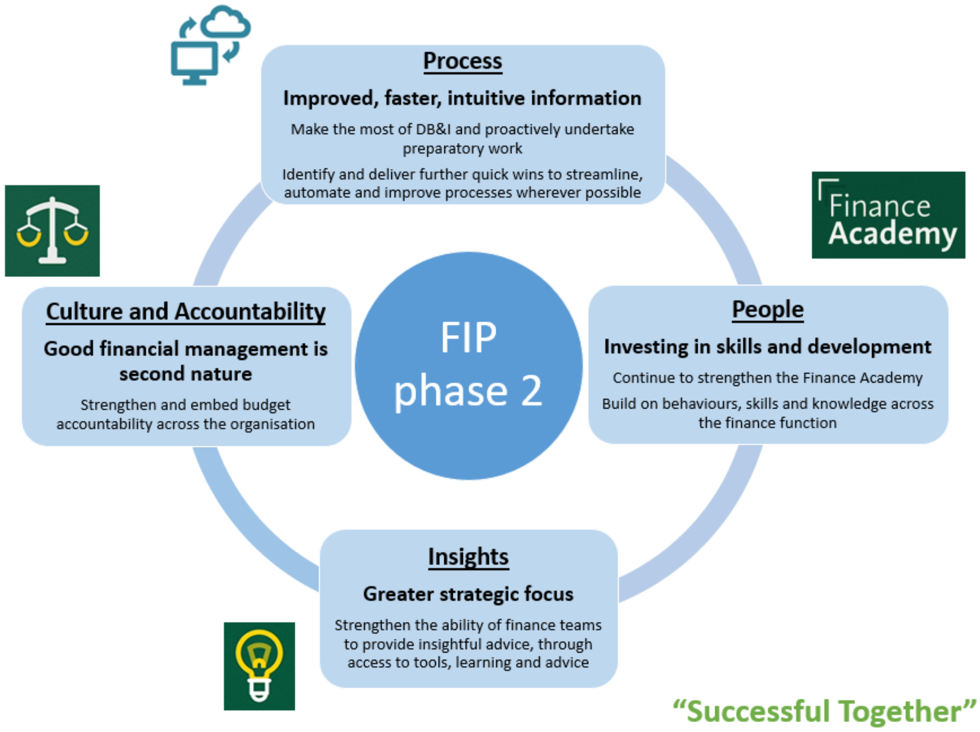
Finance Improvement Programme

5.7 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.

5.8 Recognition that the formal requirement for improvement had been successfully addressed does not deter from the need to reject complacency and 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.

5.9 The graphic below sets out the four key areas of improvement which comprise FIP2. In the round, they set out a plan to: improve culture and financial accountability; provide greater strategic focus; improved, faster and more intuitive information; and to invest in the skills and development of Members and Officers charged with developing, delivering and managing the Council's budget, as well as within Finance.

5.10 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.



Revenue Budget Headlines

5.11 The 2021/22 Revenue budget is balanced. Development of the budget for 2021/22 was built around a set of Core Planning Assumptions which looked at pessimistic, optimistic and likely financial scenarios to set realistic limits on the range of potential outcomes.

5.12 The potential scenarios for service delivery and budget planning were 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 and Climate; plus
- Health

5.13 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. The 5-year MTFS is the result of costing the most likely scenario resulting from this framework.

5.14 Throughout the planning process, we have followed the budget envelope principle where Directorates are challenged with producing a budget that matches available funding. This entailed Directorates identifying efficiencies to offset pressures from demographic growth, inflation and new responsibilities.

5.15 The main changes from 2020/21 are:

- **An increased budget of £35.2m:**
- Total pressures of **£76.5m**, comprising:
  - Pay pressures of **£5.9m;**
  - Inflation of **£16.0m;**
  - Demand and other pressures of **£54.6m; and**
- Efficiencies of **£41.2m**

5.16 In setting the budget; pay, contract and price inflation has been calculated by Directorates, informed by Corporate assumptions. **These total £21.9m**. Pay inflation awarded to those earning £29,000 or less has been calculated and allocated to Directorates, in addition to other pay and recruitment pressures. Contract and price inflation have been set based on a blended assumption of RRI and CPI of 1.5%, with variations for specific contracts where appropriate. Inflation has been included in Directorate envelopes.

5.17 Directorate Pressures cover core pressures (inflation and demand), Covid-19 pressures and new investment in corporate priority areas. **These are summarised in the table, below, and total £54.6m**

Table 3 – Directorate Pressures by Category

Directorate	Core £m	CV-19 £m	New Investment in Priorities £m	Total Pressures £m
Adult Social Care	2.4	0.0	0.0	**2.4**
Public Health	0.0	0.0	0.0	**0.0**
Children, Families, Lifelong Learning and Culture	8.6	10.8	3.0	**22.3**
Environment, Transport and Infrastructure	2.5	2.5	0.9	**5.9**
Community Protection	1.0	0.0	0.0	**1.0**
Resources	1.1	1.1	0.1	**2.3**
TPP Services	0.1	0.6	0.5	**1.2**
Total Directorates	**15.6**	**15.1**	**4.5**	**35.0**
Central Income and Expenditure	14.7	4.9	0.0	**19.6**
Total Net Exepnditure	**30.3**	**20.0**	**4.5**	**54.6**

5.18 The pressures in Central Income and Expenditure includes additional amounts for:

- £9.0m provision to increase the contribution to the High Needs Block Reserve to mitigate risks in delivering cost containment in CFLC; and
- £4.9m to mitigate potential Covid-19 pressures in excess of those included in Directorate envelopes

5.19 The efficiency programme totals **£41.2m,** similar in scale to the £38m target for 2020/21's budget. The efficiencies are set out in more detail in Annex A. The impact of efficiencies is factored into the Equality Impact Assessment, set out in section 11.

Revenue Budget Envelopes

5.20 The revenue budget envelopes for Directorates, Central Income and Expenditure and Funding are summarised in the table below. Overall, net expenditure has grown by £35.2m (3.6%):

- Pressures and Efficiencies are set out in further detail in **Annex A.**
- A breakdown of the 2021/22 budget by Directorates and Services can be found in **Annex B.**

Table 4 – Revenue Budget Envelopes

Directorate	Budget 2020/21 £m	Vire-ments and Funding Changes £m	Pay Pressures £m	Contract Inflation £m	Pressures £m	Effic-iencies £m	Total Movement £m	Budget 2021/22 £m
Adult Social Care	372.1	0.0	3.4	11.1	2.4	(11.9)	5.0	377.1
Public Health	30.2	2.4					2.4	32.6
Children, Families, Lifelong Learning & Culture	244.4	0.7	1.9	1.9	22.3	(20.9)	5.9	250.4
Environment, Transport & Infrastructure	133.6	1.1	0.1	1.9	5.9	(3.2)	5.7	139.4
Community Protection Group	36.2	0.1	0.2	0.1	1.0	(0.5)	0.8	37.0
Resources	66.2	0.2	0.3	1.0	2.3	(4.4)	(0.5)	65.6
Transformation, Partnerships & Prosperity	17.4	(0.0)	0.1	0.1	1.2	(0.3)	1.0	18.3
Subtotal Directorate Envelopes	**900.1**	**4.5**	**5.9**	**16.0**	**35.0**	**(41.2)**	**20.3**	**920.4**
Central Income & Expenditure	68.3	(4.6)			19.6		15.0	83.2
Total Net Expenditure	**968.4**	**(0.0)**	**5.9**	**16.0**	**54.6**	**(41.2)**	**35.2**	**1,003.6**
Business Rates (inc. related grants)	(116.2)	5.9					5.9	(110.3)
Grants (excl. Business Rates)	(88.3)	(59.0)					(59.0)	(147.3)
General Council Tax (inc tax base change)	(694.3)	(13.8)					(13.8)	(708.1)
Adult Social Care Precept (inc tax base change)	(66.6)	(3.2)					(3.2)	(69.8)
Collection Fund (Surplus) / Deficit	(3.0)	34.9					34.9	31.9
Total Funding	**(968.4)**	**(35.2)**	**0.0**	**0.0**	**0.0**	**0.0**	**(35.2)**	**(1,003.6)**

The £35.2m increase in funding is set out below.

Funding

5.21 At the Spending Review 2020, the Government announced that core spending power for Local Government would rise by an estimated 4.5% (c£2.2billion) along with a package of measures to support Local Government in their response to Covid-19. The major features of the national announcements were:

- An additional three per cent precept to help fund pressures in social care;
- A new national £300m social care grant;
- Additional Covid-19 related funding from
  - £1,550m grant for additional expenditure pressure;
  - £762m fund to support irrecoverable loss of council tax and business rates revenues incurred in 2020/21;
  - Sales, fees and charges (SFC) compensation scheme; which will be extended into the first three months of 2021/22; and
  - £670m to fund council tax support through a Local Council Tax Support (LCTS) grant.

The announcement was high level, with further information to be released with the provisional Local Government Finance Settlement (LGFS).

5.22 The provisional LGFS was announced on 17 December 2020. The settlement resulted in an additional £21m of funding for SCC, of which £20m is the Council's share of the £1,550m grant for additional Covid-19 expenditure pressure and £1m is the Council's share of the new £300m social care grant.

5.23 Alongside the settlement MHCLG published a policy paper, seeking views on the package of measures to support Local Government in their response to Covid-19 (discussed above). The policy paper includes indicative allocations for the LCTS grant; with SCC's indicative allocation being £8.6m. The paper also includes technical details of how the fund to support irrecoverable loss of council tax and business rates revenue could work. Consideration of these measures has been built into the budget although it should be noted that they are not confirmed and, for the irrecoverable losses element, the actual allocation might not be confirmed until as late as January 2022.

Table 5: 2021/22 funding

	2020/21 £m	Change £m	2021/22 £m
Council Tax	760.9	16.7	777.6
Business Rates	116.2	(5.9)	110.3
Grant Funding	88.3	59.0	147.3
Funding before collection fund	965.4	69.8	1,035.2
CT collection fund	3.0	(11.9)	(8.9)
BR collection fund	0.0	(22.7)	(22.7)
Total Funding	**968.4**	**35.2**	**1,003.6**

Note: As at Month 8, the 2020/21 budget was £1,022.5m, having been amended for one-off budget resets to reflect Covid-19 related expenditure and funding.

Council tax funding £768.7m (Council tax £777.6m less collection fund deficit £8.9m)

5.24 The Provisional LGFS confirmed there will be a referendum principle of up to 2% for core council tax. For the ASC Precept, the Government is proposing an additional 3% on top of the core element, with the options to defer some or all of the flexibility for use in 2022/23.

5.25 In setting the budget the Council has built in a 1.99% increase in the core council tax. An increase of 0.5% in the ASC Precept is also proposed, which will be directed to ASC pressures. Taking these factors into account it is proposed to increase the council tax by 2.49% in 2021/22. This equates to an increase of £0.72 per Band D property per week.

5.26 In setting the tax base for future years the District and Borough Councils make allowances for growth in new properties, increases to reliefs, irrecoverable amounts and appeals. Going into next year, anticipated growth in base is lower than the other adjustments discussed above, resulting in a reduction to the tax base.

5.27 **Full details of the Council Tax Requirement and a breakdown of the tax base by Districts and Borough can be found in Annex E.**

5.28 The Council also needs to consider the potential surplus or deficit relating to actual collection of council tax when setting the budget. This is the difference between the *estimated* council tax collectable each year, and that collected. Earlier this year the Government announced that repayment of collection fund deficits arising in 2020/21 will be spread over the next three years rather than the usual period of a year. The budget assumes a deficit of £8.9m. The actual deficit liability in 2021/22 is £3.9m with the £5.0m difference being transferred to reserves.

Table 6: Council Tax Requirement

Council Tax	2020/21 £m	Change £m	2021/22 £m
Core council tax	698.7	9.1	707.8
ASC Precept	66.6	3.2	69.8
Council tax requirement	**765.3**	**12.3**	**777.6**
Collection Fund surplus/deficit (-)	4.3	(8.2)	(3.9)
Transfer to (-)/from reserves	(5.7)	0.6	(5.0)
Council tax budget	**763.9**	**4.7**	**768.7**

Business Rates funding £87.6m (Business rates £110.3m less collection fund deficit £22.7m)

5.29 As part of the Spending Review, the Government confirmed there would be a freeze to the business rates multiplier to support businesses in the near-term, with compensation to local authorities for the freeze added to the grant for under-indexing the business rate multiplier. As such the business rates 'top-up' remains at the same level as 2020/21, £63.1m. The element of rates retained locally is budgeted at £47.3m, 10% lower than the income expected for 2020/21 prior to the outbreak of Covid-19. The reduction takes into consideration increases to reliefs (in particular Empty Property Relief), irrecoverable amounts and appeals.

5.30 As with council tax, the Council also needs to consider the potential surplus or deficit relating to the actual collection of business rates when setting the budget. The business rates collection fund deficit comprises of:

- An estimate on prior year deficit,
- One third of the 2020/21 'spreadable' deficit
- c£19m relating to the Council's share of Extended Retail Reliefs granted in 2020/21, the impact of which filters through the collection fund a year in arrears.

5.31 The Extended Retail Reliefs are fully compensated for by Central Government and a corresponding amount has been built in to grant funding to offset that element of the collection fund deficit.

5.32 Consideration for the 75% irrecoverable losses scheme (which will partially offset some of the deficit relating to 2020/21) has been built in to grant projections.

Table 7 Business rates funding

Business Rates	2020/21 £m	Change £m	2021/22 £m
Business Rates income	116.2	(5.9)	110.3
Collection Fund surplus/deficit (-)		(22.7)	(22.7)
Business rates budget	**116.2**	**(28.6)**	**87.6**

Grant funding £147.3m

5.33 All grant assumptions have been updated to reflect the information provided through the provisional LGFS as well as other proposals and publications.

5.34 In total grants have increased by £59m from 2020/21. The increase is broadly driven by:

- Covid-19 emergency funding*, **£20m**
- Covid-19 Business rates extended retails discount* (relating to 2020/21 with a corresponding deficit to the business rates collection fund) budgeted at **£19.2m**
- Covid-19 LCTS grant*, provisional allocation **£8.6m**
- DSG (corporate allocation), **£5.1m**
- Covid-19 local tax irrecoverable losses guarantee*, estimated at **£3.4m**
- Public Health Grant, **£1.7m****
- Social Care grant, **£1m**

**£51.2m of grants are one-off Covid-19 support and will not form part of funding in subsequent years*

*** Increase from 2020/21 budget assumptions; the actual grant for 2020/21 was increased by £1.7m; leading to no actual change in projected grant*

2021/22 Reserves and Risk Mitigation Strategy

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

5.36 Reserves can be held for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;
- A contingency to cushion the impact of unexpected events or emergencies; and
- A means of building up funds (earmarked reserves) to meet known or predicted liabilities.

A summary of earmarked reserves and the forecast of reserves and balances can be found in **Annex D.**

5.37 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, non-delivery of the Transformation Programme or other planned budget efficiencies.

5.38 The Council has traditionally maintained a low General Fund balance. Although there is no generally recognised official guidance on the level to be held, the level should be justifiable in the context of local and external economic factors, and that taxpayers' money should not be tied up unnecessarily. The Council's external auditor comments on the level of reserves as part of the annual audit of the Council's Accounts.

5.39 In recent years a General Fund balance of between 2.0% to 2.5% (£20.1m to £25.1m) of net budget has been maintained. The General Fund balance is low by comparison to other authorities and we have ambition to increase it over time. However, in building resilience to address the level of risk we have focussed on building our earmarked reserves and contingencies.

5.40 As at 1st April 2020, £24.2m of General Fund was brought forward. This included a £2.8m increase approved as part of 2019/20 outturn. No application is planned to support the 2020/21 budget. The 2021/22 budget also assumes no use of reserves.

5.41 For 2021/22, in addition to the £24.2m General Fund balance, we have also allowed for a £20.4m contingency as part of budget setting. It is expected that the £33.4m of contingency in 2020/21 will not be required, giving a total contingency of £53.8m for 2021/22. The General Fund balance, in combination with the contingency (for general purpose use), will mean that there is £78m (7.8%) of cover to mitigate against future risk and uncertainties.

5.42 In addition, a £9.0m provision to increase the DSG High Needs Block reserve has been created to mitigate the risk of delivering efficiencies in CFLC, and £4.9m to mitigate the risk of Covid-19. The table below sets out planned contingencies:

Table 8: Contingencies held in 2021/22 Budget

Contingency	2021/22 Balance £m
General Fund	24.2
Contingency Brought Forward*	33.4
Base Budget Contingency	20.4
Subtotal General Congingencies	**78.0**
DSG HNB Reserve Provision	9.0
Covid-19 Reserve Provision	4.9
Overall Contingencies	**91.9**

*Assumes unused in 2020/21

5.43 As part of the budget setting process we set aside £21.9m for inflationary increases – both for pay and contract inflation. In order to de-risk the budget, we have applied the £21.9m to Directorate budget envelopes to cover these increases.

5.44 On the basis of the above the Section 151 Officer considers the 2021/22 Budget to be robust.

Financial Resilience

5.45 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.

5.46 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 will be published late and is not expected until the end of January. CIPFA are currently analysing the provisional data for 2019/20 in order to assess its completeness and consistency and to consider if it could be used for the next iteration of the Resilience Index, or whether to wait until after the final data is available before updating the Resilience Index.

5.47 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.

5.48 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.

5.49 The officer 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.

5.50 The Council's position on debt is expected to remain relatively unchanged, showing high levels of debt (higher risk on the indices) however presenting on the lower risk side when measuring interest payable as a percentage of Net Revenue Expenditure. In future we would not expect the position to improve for these indicators. The Council has taken the strategic decision to expand the Capital Programme and a consequence of that will be increased debt and borrowing. Consideration of financial resilience is built into the governance arrangement and a key part of the programme is to test the justification, affordability and prudence of plans to increase borrowing.

5.51 Considering other indicators

- Council tax ratio - the Council is expected to continue ranking highest (lowest risk) of all County authorities;
- Social Care indicator - the Council's position is expected to have improved, shifting from the higher risk side of the index to the lower risk side; and
- Sales, Fees and Charges ratio - this indicator cannot be validated from the available data however the Council has presented on the higher-risk side of the index previously and work to improve these results remains ongoing.

5.52 When considering sustainability and what the index tells us, there is the need to highlight that, whilst the CIPFA resilience index is a valuable tool for assessing financial resilience, there will be situations where decisions taken by the Council will adversely impact future results. For example, Earmarked Reserves will be drawn on for their intended function; consequently reducing current levels. Furthermore, debt levels will increase as a result of an expanded Capital Programme. The Council has systems in place to ensure that informed decisions are taken, with consideration to the overall financial position of the authority.

FM Code of Practice

5.53 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.'

5.54 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.

5.55 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

5.56 Officers 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.

Flexible Use of Capital Receipts Strategy

5.57 In the Spending Review 2015, the Chancellor of the Exchequer announced that to support Local Authorities in delivering more efficient and sustainable services, the Government will allow them to spend up to 100% of their capital receipts on the revenue costs of transformation projects.

5.58 Initially this flexibility on the use of capital receipts was limited to those received between 1 April 2016 and 31 March 2019. However, the 2018/19 LGFS extended these flexibilities for a further three years to March 2022.

5.59 To take advantage of this flexibility, Local Authorities are required to produce a strategy which discloses the individual projects that will be funded, or part funded, through flexible receipts; this must be approved by Council.

5.60 In February 2020, the Council approved the use of £11.5m capital receipts for the refreshed Transformation Programme; to be applied in 2020/21. From 2021/22, the costs of the programme are funded from a £10m revenue allocation; with the exception of existing capital receipt allocations carried forward from 2020/21. The commitment to end the reliance on capital receipts to fund transformation was set out in the 2020/21 budget approved by

Council in February 2020. The 2021/22 strategy therefore only includes use of capital receipts to fund rephased amounts rephased from 2020/21.

5.61 Whilst not part of the refreshed Transformation Programme, but part of the wider enabling projects to support the transformation agenda, the Moving Closer to Residents (MCTR) Project, was approved by Council in December 2019. In February 2020, £5.6m of capital receipts were allocated to fund revenue expenditure in the move back into the county. Although the means of achieving the move back into Surrey has changed significantly as a result of Covid-19, the purchase of Woodhatch Place and the Agile Office Programme, the transformational aims of the programme remain and a revenue allocation, funded from receipts is still necessary. The initial allocations were phased over the period to 2021/22 and the remaining £2.4m is still required to successfully complete the ambitions of moving the Council's civic heart back into the county and enable a more agile workforce.

5.62 This funding will be utilised to enable the decommissioning of County Hall, Kingston and the fit out of Woodhatch Place, Reigate as the new Civic Heart; enabling the Council to fulfil the long-term commitment to provide all public services from within the administrative boundary of Surrey for the first time in the organisation's history and realise efficiencies in the running cost of the office estate.

5.63 **Annex F** details the plans for the use of flexible receipts to deliver transformation over the medium-term, including the Agile Office Programme. Subject to agreement by Cabinet, The Flexible Use of Capital Receipts Strategy needs to be recommended to Full Council for approval.

6. CAPITAL PROGRAMME 2021/22 TO 2025/26

6.1 This section of the report provides an overview 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) 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.

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 Capital 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 6.25 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 already been implemented. 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 proactive 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; and
- Application of the budget envelope approach to capital ensuring that the Capital Programme is deliverable without exceeding the borrowing costs already assumed in the MTFS. Next year we will be building on this further and making more explicit the revenue impact of capital investment decisions on Directorate budget envelopes.

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 were iterated and the SCGs came forward with a refreshed set of proposals; some of which require further scrutiny and benefits testing before they are included in the Capital 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 Capital Programme is set out in Annex C. The programme has increased from £1,447.4m in the MTFS approved by Council in February 2020 to £1,905.5m set out in this MTFS. The revised Capital Programme is split between approved Capital Budget of £1,026.2m and Capital Pipeline of £879.2m which includes a £100m allocation for Your Fund Surrey (YFS). New or expanded schemes include:

- £139m for Farnham infrastructure projects
- £48m for Independent Living
- £83m for Extra Care Housing
- £9m allocations for Climate Change schemes

These schemes are held in the Capital Pipeline and will be subject to rigorous scrutiny before they become part of the approved budget.

2021/22 Capital Budget and MTFS to 2025/26

6.12 A total of £1,026.2m of schemes are included in the Capital Budget over the MTFS (i.e. excluding Capital 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 potential impact of Covid-19 on deliverability. The table below shows a breakdown of budget schemes into the three SCGs over the MTFS period:

Table 9: MTFS Indicative Capital Budget by Strategic Capital Group

Strategic Capital Group	2021/22 (£m)	Total MTFS (£m)
Infrastructure	95.6	610.0
Property	74.9	382.6
IT	14.4	33.6
Total MTFS Capital Programme	**184.9**	**1,026.2**

6.13 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 largest schemes based on estimated spend over the MTFS period are as follows:

- £122m - Schools Basic Need
- £74m - Special Educational Needs and Disabilities Strategy

- £235m - River Thames Scheme (£183m over the MTFS period)
- £18m – Wider Flood Alleviation Schemes

- £146m – Maintenance of Schools and other County Buildings

- £200m - Highway Maintenance
- £49m - Bridge and Structures Maintenance
- £15m - Local Highways Schemes

- £46m – Housing Infrastructure Fund - A320 Scheme

2021/22 Capital Budget

6.14 The 2021/22 Capital Budget stands at £184.9m, representing an ambitious programme of investment across a number of priority areas. SCGs have provided assurance over the feasibility of delivering to budget, and the budget is similar in scale to the level of delivery forecast in 2020/21 (despite the ongoing challenge of Covid-19).

6.15 Successful delivery of the 2021/22 budget is a key part of ensuring the overall Capital Programme remains on course. The focus of work to provide assurance on delivery in 2021/22 will be on the schemes that comprise the majority of the total budget. The following ten schemes account for £137m, or 74% of the 2021/22 budget:

Infrastructure

- £49m – Highways, Bridges and Structures Maintenance
- £8m - Street Lighting LED Conversion
- £7m - Local Enterprise Partnerships Funded Schemes

Property

- £15m - Schools Basic Need
- £14m - Capital Maintenance Schools
- £11m - Special Educational Needs and Disabilities Strategy
- £12m - Capital Maintenance of County buildings
- £8m - Relocation/upgrade of SFRS functions at Wray Park
- £4m – Accommodation for Looked after Children

IT

- £9m - Digital Business & Insights Programme - ERP Replacement

Capital Pipeline Schemes

6.16 Capital 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 the same robust process for business case approval as approved schemes. The SCGs have come forward with an ambitious set of proposals to support key priorities and safeguard the future for Surrey residents. The table below shows a breakdown of pipeline schemes into the SCGs over the MTFS:

Table 10: MTFS Indicative Capital Pipeline by Strategic Capital Group

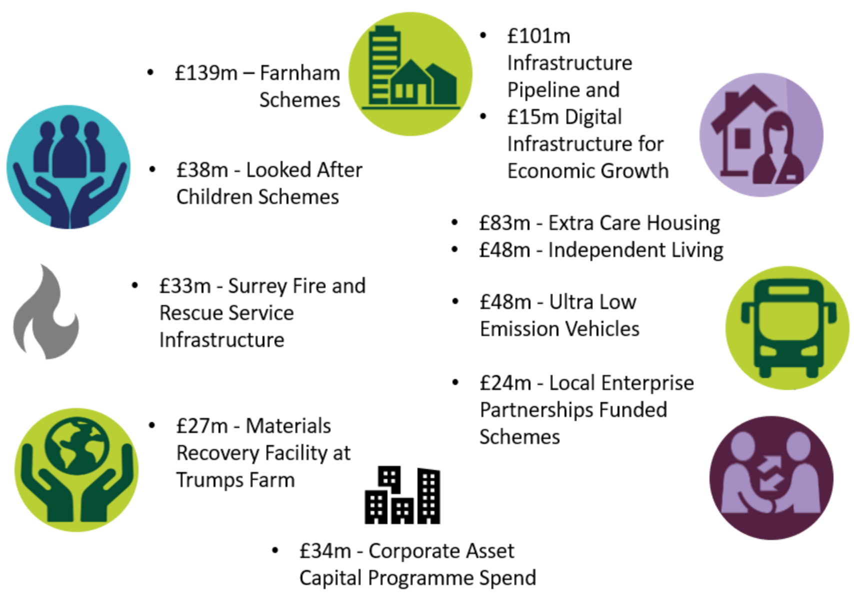
Strategic Capital Group	MTFS (£m)
Infrastructure	424.2
Property	339.2
IT	15.8
SCG MTFS Capital Pipeline	**779.2**
Your Fund Surrey (YFS)	100.0
Total MTFS Capital Pipeline	**879.2**

6.17 Several projects are being explored to deliver on our climate change responsibilities and to create a greener future for residents with c.£105m in the pipeline.

6.18 In addition to these, the Council is committed to continue working with partners to unlock opportunities across the County with £240m in pipeline for large scale infrastructure projects to significantly improve transport links, unlock housing development for District and Borough Council partners and to regenerate towns and local economies.

6.19 The Council is also developing more programmes to support Surrey's most vulnerable residents, with c£170m in pipeline for accommodation for looked after children and housing for independent living and extra care.

6.20 The largest schemes based on estimated spend over the MTFS period (76% of Pipeline spend), are shown below:



6.21 Pipeline proposals are subject to ongoing development, scrutiny and challenge by the SCGs and CPP to ensure feasibility and deliverability before being approved and confirmed into the Capital Budget.

Your Fund Surrey

6.22 Your Fund Surrey (YFS), (formerly known as the Community Projects Fund), is a five year £100m capital fund announced by the Council in its 2020/21 Budget and MTFS. 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.

6.23 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

6.24 The YFS panel will include the Executive Director of Resources or their nominated officer(s). All applications will be reviewed to ensure that proposals meet with agreed criteria and are financially robust and sustainable.

Costs and Benefits of the Capital Programme

6.25 Annex C sets out proposed funding for the Capital Programme, including planned borrowing of £1,145.0m. 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. In net terms (after capital investment income) borrowing costs grow from £13m in 2020/21 to £52m in 2025/26.

6.26 To finalise the Capital Programme, SCGs and CPP were tasked with ensuring that the Capital Programme was deliverable within the MTFS budget envelope for financing costs. This included testing new Pipeline schemes to justify the affordability and prudence of plans to increase borrowing. The results of this work have been reflected in the Final Budget and in the Treasury Management Strategy (Annex H) and associated prudential indicators.

6.27 The direct investment return from capital assets represents only a small part of the revenue benefit of the Capital Programme. Some of the largest capital schemes (across Capital Budget and Pipeline) play a significant part in contributing to a sustainable revenue budget alongside delivering Corporate Priorities. In particular, the following headline schemes (which represent almost 50% of the total Capital Programme) all have a long-term positive impact on funding, efficiency delivery or income generation.

- Schemes designed to **grow a sustainable economy and secure a greener future** will ultimately benefit council tax and business rates income; generating more funding through increased economic activity:
    - Surrey Flood Alleviation - £253m (of which £200m in the period to 2025/26)
    - Farnham Projects - £139m
    - Infrastructure Pipeline - £101m
    - Ultra-Low Emission Vehicles - £48m
    - Housing Infrastructure Fund – A320 Scheme - £46m
    - LEPs Schemes - £31m
    - Digital Infrastructure (Economic Growth) £15m

- Schemes that feature a significant **efficiency delivery or income generation element**
    - Extra Care Housing - £83m
    - Independent Living - £48m
    - Special Educational Needs and Disabilities Capital Programme - £74m
    - Corporate Asset Capital Programme - £34m
    - Materials Recovery Facility at Trumps Farm - £27m

6.28 The revenue benefit of economic growth schemes is not always directly quantifiable, however investment which either safeguards existing homes and businesses or unlocks the potential to grow the economy further plays a significant part in securing long-term growth of council tax and business rate income.

7. FINANCIAL PERFORMANCE 2020/21

7.1 Understanding performance against the current year's budget is a key part of ensuring that the underlying Directorate budgets are sustainable and a prudent basis on which to build the new budget. This section presents highlights from the Month 8 (November) Financial Report, presented to Cabinet on 26 January 2020.

7.2 **Revenue:** Against a full-year budget at Month 8 of £1,022.5m; the current forecast is for an overspend of £3.4m. This primarily relates to an increased deficit in the DSG High Needs Block in Children, Families and Lifelong Learning (CFL) of £8.8m; offset by net underspends in other areas. The 2021/22 budget includes provision for a £9m increase in the contribution to the HNB reserve to mitigate the risk that the pressure cannot be contained at the expected level of deficit in 2021/22.

7.3 **Capital:** The Council approved a capital budget for 2020/21 of £175.7m in February 2020. This has been restated to £226.3m to recognising the impact of Covid-19 and the inclusion of the acquisition and associated costs of the strategic acquisition of the Woodhatch Place site in Reigate. Against the revised budget, forecast capital spend is £226.9m; an increase of £0.6m across the SCGs.

7.4 The 2020/21 expected forecast outturn for both revenue and capital (coupled with the appropriate mitigation of those pressures in 2021/22) 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 identified at Month 8 are forecast to have an ongoing effect, these are built into the budget for 2021/22.

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

MTFS Funding Projection

8.1 Planning over the medium-term presents several challenges:

- **Comprehensive Spending Review (CSR)** - a multi-year spending review did not materialise in 2019/20 or 2020/21, resulting in single-year settlements for Local Government. This means that since 2019 councils have had the difficult task of setting strategic plans over the medium-term, with little certainty about the funding available over the period. This does not provide a foundation for efficient planning.

- **Funding Reform** – Earlier in the year the Government announced that they would not be proceeding with the implementation of the Review of Relative Needs and Resources (formerly the Fair Funding Review) and 75% business rates retention in 2021/22. The announcement did not provide a revised date for implementation and the reliance on local taxes as key components of reform introduces new issues in the wake of Covid-19.

  The timing of the reform is crucial to financial planning, not least because officers anticipate the outcome will result in a reduction to the Council's baseline funding level (via the business rates system). As it stands, no progress has been made during this financial year therefore it is difficult to quantify the extent of the reductions or when they will take effect. The MTFS assumes that reform will be implemented for financial year 2022/23.

- **Council tax volatility** – the Council's main funding source is council tax. This year, council tax funds 78% of net revenue expenditure. The impact of the actions taken to reduce the spread of Covid-19 and the subsequent recession has inevitably resulted in financial hardship for many households and an increase in the number of residents requiring local council tax support.

8.2 Considering the wider economic environment, public sector net borrowing (the deficit) and public sector debt have reached record levels this year. A consequence of this (with or without funding reform) is likely to be a reduction to the funding available for distribution to Local Government over the medium and longer-term.

8.3 Over the course of this year, 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 this medium-term outlook is considered to provide a realistic overall funding position, in the context of the planning challenges set out above.

8.4 A fundamental assumption in these plans is that funding reform is implemented in April 2022, at which point the Council sees funding retained through the business rates system gradually reduce as the Council's 'relative need' as determined by the Government is largely offset by its 'relative resources'; i.e. the level of council tax the Council can raise offsets its share of needs-based funding.

8.5 Looking ahead to 2022/23 and beyond:

- After accounting for depressed council tax growth which gradually starts to rebuild over the medium-term, reductions driven by funding reform exceed council tax growth by an average of c£12m per year;
- Of the £147.3m grant funding budgeted for 2021/22:
  - £60m is expected to be 'rolled-in' to the Fair Funding Review (Public Health Grant of £38m and Social Care funding of £22m)
  - £51.2m represents one-off Covid-19 support (discussed in section 5.34)
  - £8.7m ceases when business rates baselines are reset (£6m compensation for the multiplier cap and £2.7m other S31 business rates reliefs and exceptions);
- This brings grant funding to c£25m in 2022/23 and 2023/24 after which point the Private Finance Initiative relating to Waste comes to an end and reduces grant funding by a further c£10m; and
- After accounting for the 2021/22 collection fund deficit 'spreadable' element we expect that the reduced tax base in 2021/22 should not result in further material deficits arising on either collection fund.

8.6 The factors set out above contribute to a total reduction in anticipated funding of £52.0m from £968.4m in 2020/21 to £916.4m in 2025/26.

Table 11: Projected Funding over the MTFS

	2020/21 £m	2021/22 £m	2021/22 rebase* £m	2022/23 £m	2023/24 £m	2024/25 £m	20256/26 £m
Council Tax	760.9	777.6	777.6	788.0	807.7	832.1	859.6
Business Rates	116.2	110.3	179.0	152.1	120.2	83.3	43.4
Grant Funding	88.3	147.3	78.6	26.4	25.6	14.6	14.4
Funding before collection fund	965.4	**1,035.2**	**1,035.2**	**966.6**	**953.6**	**930.0**	**917.5**
CT collection fund	3.0	(8.9)	(8.9)	1.6	(1.8)	0.5	0.5
BR collection fund	0.0	(22.7)	(22.7)	(0.7)	(1.4)	(1.6)	(1.6)
Total funding	**968.4**	**1,003.6**	**1,003.6**	**967.5**	**950.4**	**928.9**	**916.4**
Year on year change		35.2	35.2	(36.1)	(17.0)	(21.5)	(12.5)

**2021/22 rebased to allow comparisons against 2022/23, when funding reform has been built into assumptions*

MTFS Pressures and Efficiencies

8.7 As part of costing the Core Planning Assumptions, Directorates were tasked with quantifying pressures and efficiencies over the five-year period. These are set out in detail in Annex A.

8.8 In total, Directorates have identified pressures of £239.5m and efficiencies of £113.5m; a net increase of £126.0m. When added to the anticipated £52m reduction in funding, an indicative MTFS gap of £178.0m needs to be addressed by 2025/26.

Table 12: Projected pressures, efficiencies and gap over the MTFS

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Brought forward budget	968.4	1,003.6	1,014.4	1,037.1	1,063.3	
Pressures	76.5	36.3	43.4	40.7	42.6	**239.5**
Identified efficiencies	(41.2)	(25.4)	(20.6)	(14.5)	(11.6)	**(113.5)**
Total budget requirement	**1,003.6**	**1,014.4**	**1,037.1**	**1,063.3**	**1,094.3**	
(Growth) / Reduction in funding	(35.2)	36.1	17.0	21.5	12.5	**52.0**
Reductions still to find	(0.0)	47.1	39.7	47.7	43.4	**178.0**

8.9 Given the high level of uncertainty associated with the Government funding review and future Directorate pressures, these estimates will be revised in each successive financial year, with funding envelopes determined for individual Directorates when estimates are more certain.

9. DEDICATED SCHOOLS GRANT (DSG)

Schools Budget

9.1 The Council is required by law formally to approve the Total Schools Budget, which comprises: Dedicated Schools Grant funding, post 16 grant funding and any legally relevant council tax related funding. This budget is used to fund schools' delegated and devolved expenditure and other maintained schools' expenditure, nursery education provided by state schools and private providers plus expenditure on a range of school support services specified in legislation. The Total Schools Budget excludes most funding allocated to individual academy schools

9.2 The Total Schools Budget is a significant element of the proposed total budget for the CFLC Directorate. Table 13 outlines the proposed Total Schools Budget for 2020/21 of £537.3m, comprising:

- £507.2m Dedicated Schools Grant (DSG) plus a planned overspend of £24m; and
- £6.1m Education and Skills Funding Agency (ESFA) sixth form grants

Table 13 - Analysis of Total Schools Budget for 2021/22

Schools Budgets	Schools and nurseries delegated budgets £m	Centrally managed budgets £m	Total £m
DSG 2021/22	379.7	127.5	507.2
Planned overspend		24.0	24.0
Total DSG	**379.7**	**151.5**	**531.2**
ESFA sixth form grant	6.1		6.1
Total Schools Budget	**385.8**	**151.5**	**537.3**

9.3 For this purpose centrally managed services include the costs of:

- Placements for pupils with special educational needs in non-maintained special schools and independent schools;
- Funding of state maintained special schools and SEN centres, other than place funding
- Part of the cost of alternative education (including part of the cost of pupil referral units);
- Additional support to pupils with special educational needs; and

- A range of other support services including school admissions.

Funding for private nursery providers counts as delegated.

9.4 Schools are funded through a formula based on pupil numbers and ages with weightings for special educational needs and deprivation. Cabinet considered and agreed a detailed report on the 2021/22 funding formula on 24 November 2020. The funding rates for schools for 2021/22 will be dependent on the outcome of the Council's appeal to the Secretary of State to transfer £3.4m of school funding to high needs and subject to amendment by the Cabinet Member and Director of Education, Lifelong learning and Culture when all funding data for schools is known.

9.5 Schools will also receive pupil premium funding, based on the number of:

- Pupils on free school meals at some time in the past six years;
- Looked after children;
- Children adopted from care;
- Pupils from service families (or who qualified as service children within the last six years, or in receipt of a war pension).

9.6 Schools also receive a range of other grants for example to support infant free school meals and physical education and sport in primary schools.

High Needs Block (HNB)

9.7 The HNB is an element of DSG used to support children with additional needs. Since changes in legislation around Local Authorities responsibilities were made in 2014, the rate of increase in demand has significantly outstripped increases in funding causing significant financial pressures in this area. The current position is set out in section 4.25.

9.8 During 2020/21 further legislative changes prevented deficits within the DSG HNB to be funded directly from the General Fund. However, the deficit must still be held as a negative reserve on the Council's balance sheet. This therefore needs to be considered alongside the Council's longer-term financial stability.

9.9 In order to best mitigate this liability, since 2019/20 the Council has been making a contribution from the General Fund to a matching reserve which offsets the deficit on the HNB. The planned £24m overspend in 2021/22 will be matched by a contribution of £24m to the reserve from the General Fund. The budget includes an allowance to increase this contribution by a further £9m if necessary.

9.10 The Council is continuing its transformation programme to reduce the financial pressure in this area but also is lobbying in conjunction with other authorities across the country that greater funding is required in this area.

10. ENGAGEMENT AND CONSULTATION

10.1 The proposals set out in this budget report are based on significant engagement with residents, partners and businesses over the last two years with the insight from this engagement informing a robust evidence base underpinning the Organisation Strategy and MTFS.

10.2 This includes engagement with residents over the summer specifically to understand the impact of Covid-19 and their future priorities for the Council. As part of this we commissioned a statistically significant temperature check survey 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.

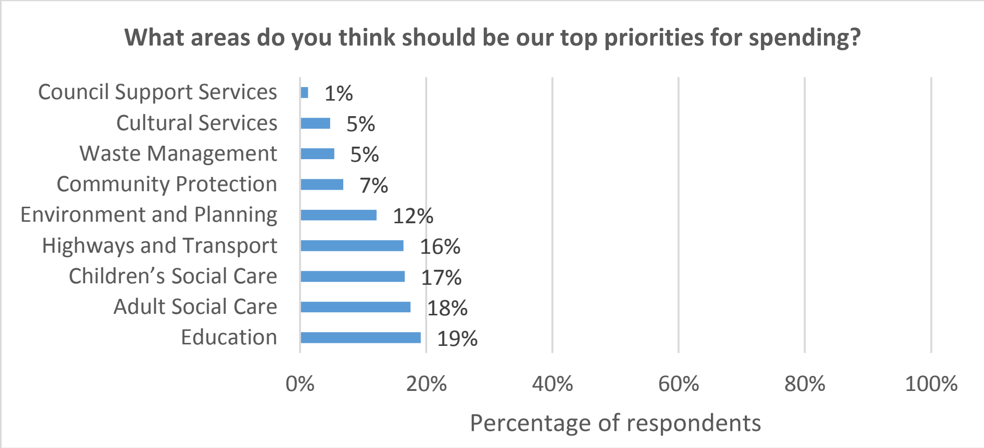
10.3 The results of the survey highlighted that during the pandemic some residents, in particular those that have had to shield, have felt disconnected from their local community and there has been a significant impact on mental health & wellbeing. There was a reported impact on access to healthcare services, with significantly lower levels of use of out of hours GPs, mental health services and services for carers. Respondents also highlighted the importance of their support networks, including family, friends and neighbours as well as the services they have received during the crisis. The survey showed that resident support for local businesses is strong and that local recovery can be encouraged through innovation, support and funding.

10.4 The Community Impact Assessment (CIA) identified the health, social and economic impacts of Covid-19 among communities across Surrey and has helped further shape the refreshed Organisation Strategy. 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 health inequalities with Covid-19 having a greater impact on certain groups, such as those that are vulnerable or from black and minority ethnic communities. The CIA has also highlighted the issue of overlapping vulnerabilities and complexity of cases, for example the interrelated nature of domestic abuse, homelessness and substance misuse.

10.5 To build on the research undertaken during the summer to understand resident's current concerns and priorities for the future, the Leader and Chief Executive held virtual resident roadshows in December to share details about the budget and listen to residents about their priorities. We have also engaged with residents and local partners such as Districts and Borough Councils, Health, Police and the voluntary, community and faith sector (VCFS) organisations to discuss the draft budget. An online budget survey for residents was also conducted which asked for their views on whether the Council should maintain, increase, or decrease budgets across a range of service areas. Due to the small number of respondents (213) the findings should be considered alongside other sources of resident insight. The following messages came through in the budget survey:

- When asked what the Council's priorities for spending should be, respondents highlighted Education, Adult Social Care and Children's Social care as their top three priority areas (see table below), which is broadly consistent with the findings of the budget survey last year; and
- Respondents were asked if they had suggestions for how the Council's budget should be spent. Common suggestions were to spend money more efficiently and in joined up ways within the county. One respondent suggested 'consulting with the public more, using low costs methods (not expensive agencies) to see what could be provided more efficiently locally'. Another respondent also suggested increasing the efficiency of services and said they would 'like to see more digitalisation of Council services to make them as efficient as possible'.

Respondent support for spending priorities



11. EQUALITIES AND DIVERSITY

11.1 In approving the Budget and the Council Tax Precept, the Cabinet and Council must comply with the Public Sector Equality Duty in section 149 of the Equality Act 2010.

11.2 A high-level Equality Impact Assessment (EIA) of the revenue efficiencies proposals has been undertaken and is set out in **Annex J.** In addition, full EIAs relating to specific efficiency proposals are included which reflect their advanced stage of development and will have notable day-to-day impacts for residents. Further EIAs will be undertaken where appropriate before individual proposals are implemented. In considering the proposals in this report, Cabinet Members are required to have 'due regard' to the objectives set out in section 149 of the Equality Act 2010, i.e. the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it (the Public Sector Equality Duty).

11.3 The Equality Act 2010 ('the EA') provides that a public authority must, in the exercise of its functions, have due regard to the need to:

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the EA;
- advance equality of opportunity between persons who share a relevant protected characteristic (as defined by the EA) and persons who do not share it;
- foster good relations between persons who share a relevant protected characteristic and persons who do not share it. The protected characteristics set out in the EA are as follows:
    - Age
    - Disability
    - Gender Reassignment
    - Pregnancy/ maternity
    - Race
    - Religion or Belief
    - Sex
    - Sexual Orientation
    - Marriage and civil partnership are also protected characteristics for the purposes of the duty to eliminate discrimination.

Prior to making a decision as to which efficiency proposals should be agreed, Cabinet must have due regard to the Equality Duty contained in Section 149 of the EA.

11.4 Having ‘due regard’ does not necessarily require the achievement of all the aims set out in section 149 of the EA. Instead it requires that Cabinet understand the consequences of the decision for those with the relevant protected characteristics and consider these alongside other relevant factors when making the decision to pursue one course of action rather than another, alternative, course of action that may have different consequences. The regard which is necessary will depend upon the circumstances of the decision in question and should be proportionate.

11.5 The public sector equality duty set out in the EA is a continuing one, and it will therefore be necessary to monitor the effects of decisions and policies, not only during their formulation, but also after implementation.

11.6 The three equality aims set out above must be considered as a relevant factor alongside financial constraints and all other relevant considerations.

11.7 EIAs are carried out to identify any adverse impacts that may arise as a result of the proposals for those with protected characteristics and to identify appropriate mitigations. Members must read the full version of the EIAs and take their findings into consideration when determining these proposals.