

MEETING OF THE COUNTY COUNCIL

9 FEBRUARY 2021

ITEM 5 - 2021/22 FINAL BUDGET AND MEDIUM-TERM FINANCIAL STRATEGY TO 2025/26

Amendment to the recommendations proposed by Mr Jonathan Essex, seconded by Mr Robert Evans

Supporting information:

This document sets out individual budget proposals in two areas within Surrey County Council's direct responsibility – transport and buildings, including some schools, which are outside of Surrey's budget control.

The concept of a Surrey Decarbonisation Fund is presented as a blueprint for initiatives that could scale from financing school improvements to drive change in other areas.

Table 1. Summary of budget proposals

Proposal	2021-2022 revenue budget impact
Transport: Dedicated Cycle Route Planners	£93,000
Transport: Safe Routes to Schools and support for 20mph low traffic neighbourhoods across Surrey	£175,000
Transport: Electric Fleet Replacement Programme	£0
Buildings: Extend the Zero Carbon Buildings Programme	£60,000
Buildings: Energy retrofit and renewable energy for every school in Surrey	£314,000
Surrey Decarbonisation Fund (develop in-house)	n/a
Total	£642,000

Details of these funding proposals are set out in the sections below.

1. Transport Proposals

1.1 Dedicated Cycle Route Planners (2 No.)

This amendment highlights the need for in-house expertise in cycling planning within Surrey County Council. Having this resource last year could have more than paid for itself by avoiding Surrey losing out in the Active Travel Fund from central government by £1.2 million, around 12 times the average of all other councils.¹

These posts would enable the Council to strengthen its in-house expertise and better support proactive proposals from residents, including those posted on the '[Active Travel in Surrey's towns and villages' map](#)² and through accelerating the production and implementation of Local Cycling and Walking Infrastructure Plans (LCWIPs) for all of Surrey's boroughs and districts.

Budget Proposal and Impact

2 dedicated Cycle Transport Planner posts, grade PS9 (one for East and one for West Surrey).

Total revenue cost impact £93k/year.

1.2 Safe Routes to Schools and support for 20mph low traffic neighbourhoods across Surrey

Many Surrey schools have unmet 'asks' for travel plan funding to make it safer and easier for children to walk and cycle to school. Schools in the middle of residential areas could be 'low traffic neighbourhoods', enabling children to walk and cycle safely all the way from home to school. Wider benefits including reducing the number of people killed and injured and reduced air pollution are set out in a recent study by Hammersmith and Fulham Council.³ Development of these proposals would require a strengthened road safety and walking and cycling capacity within the council, and enable capital funding to be reprioritised into these areas.

This improvement of measures around schools should then be matched by strengthening the School Travel team, so that it has the capacity to engage with all

¹ Surrey was in the bottom third of councils in terms of securing the money allocated to them by government. See comparison at https://docs.google.com/spreadsheets/d/1cm58W8TkWe_fgCBKcnglrOUOjW_F-pv-xQ5yY5hdNes/edit.

² See <https://surreycovidtransportmap.commonplace.is>.

³ See study commissioned by the London Borough of Hammersmith and Fulham - https://www.lbhf.gov.uk/sites/default/files/section_attachments/20mph-speed-limit-public-health-report.pdf.

schools, and setting up innovative new ways of working such as a *peer-to-peer support programme*⁴ so schools better support and raise standards between themselves.

Budget Proposal and Impact

Expand Surrey’s School Travel Team. Two additional Safe Travel Officers (grade PS8, £41k) = £82k.

Two additional Road Safety Engineers (grade PS9, £46.5k) to strengthen capacity for low traffic neighbourhoods and associated road safety improvements. = £93k

Total budget cost: £175k

1.3 Electric Fleet Replacement Programme

Surrey County Council has committed to be zero carbon as an organisation by 2030. Vehicles typically have a 10-year life. Surrey County Council plans to replace 70 vehicles over the next 10 years. Replacing these (excluding fire engines) with 100% electric vehicles will require the capital budget for vehicle replacements to be increased but the extra cost will be fully recovered through revenue savings, because fuel and maintenance costs will be reduced. This investment would first target vehicles with the shorter average daily mileage and then rollout to the full fleet as the range of EVs grows.

Table 1. Comparison of Highway Diesel and Electric Van costs

Source: Surrey County Council, 2021.

	Diesel	Electric
Purchase Cost	20,000	35,000
Useful Life (years)	10	10
Working Days per year	260	260
Annual Mileage	26,000	26,000
Depreciation	£2,000	£3,500
Annual average interest cost	£169	£295
Fuel / Charge cost (per year)	£3,380	£962
Maintenance (per year)	£678	£450
Total Cost	£6,227	£5,207
Premium (saving) per year per van		(£1,019.49)

⁴ Such as has been developed for foster carers in Surrey through the Mockingbird programme.

Note: Battery replacement from eight years so may reduce some of this saving.

Budget Proposal and Impact

Replace all vehicles with electric vehicles from 2021-22.

Increase capital budget cost by an average of £110k a year plus cost of installing additional electric vehicle charging points at three highway depots. This will be fully recovered by revenue cost savings.

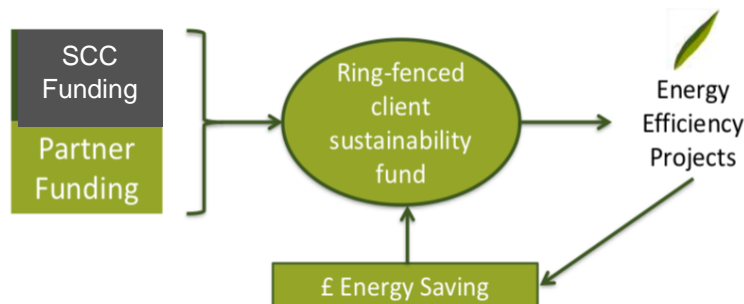
Budget impact = £0, positive over the Medium-Term Financial Strategy (MTFS) period.

2. Extend the Council's Zero Carbon Buildings Programme

2.1 Surrey's Own Estate

Surrey County Council is developing a revolving fund to retrofit its building stock (see Figure 1). Such a fund could receive (limited) matched funding from the government's Salix fund, however the government currently provides only £200,000 to each public body each year.⁵

Figure 1. A Revolving Fund to Decarbonise Surrey



Adapted from [https://www.apse.org.uk/apse/assets/File/Salix%20Finance%2021-01-2019.pdf](https://www.apse.org.uk/apse/assets/File/Salix%20Finance%202021-01-2019.pdf)

A survey of the 11 significant council-owned buildings has identified £4.9 million of improvements through solar PV, loft insulation and air source heat pumps, with a carbon saving of 689 tonnes. The 2021-22 budget has allocated £2.5m over the next three years. This should target delivery of a wider scope of measures on these 11

⁵ See <https://www.salixfinance.co.uk/loans/SEEF>.

buildings and expand to include the rest of the Surrey County Council's estate. The provision of renewable energy (mainly solar PV) could be funded separately to the Council, as described for schools below.

Budget proposal: Increase revolving fund budget from £2.5 to £10m over four years. This would increase costs from £1m to £2.5m in 2021-22; £1m to 2.5m in 2022-2023 and £0.5m to £2.5m in 2023-24, with £2.5m in 2024/25.

Revenue Budget impact: 4% of £1.5m capital increase in 2021-22 = **£60,000.**

2.2 Energy Retrofit and Renewable Energy every school in Surrey

This proposal seeks to address a funding challenge in that schools could individually apply to the government for Salix funding for some energy improvements, but generally don't as they don't own the assets, and likewise Surrey County Council has tended not to apply, as the energy savings result in cost savings for others or out of different funding pots. Similarly, while there is strong public support for rooftop solar, this is not maximised on Surrey's school estate.

Furthermore, mainly schools have a significant carbon footprint from their heating (typically oil- or gas-fired; and poorly insulated) which may also require government support to retrofit.

As a result of this complexity (and other priorities, including related to COVID-19) much less is being done than could be. This is at odds with the Council's commitment to reduce its own carbon footprint to net zero by 2030. Yet Surrey has a formidable property team with energy expertise and a climate change team in-house. And the Schools Energy Co-operative formed to put renewable energy (mainly solar panels) into schools was started and is based here in Surrey. This proposal is for Surrey County Council to leverage its existing climate, energy and asset management expertise to provide a step change in decarbonising our schools.

How this applies to the school estate

Almost all of Surrey's state school buildings are owned by Surrey County Council. The maintained schools would generate energy savings direct to the Council. Careful consideration will be needed to structure the capital investment to ensure that

borrowing costs usually met from the General Fund were recovered from energy savings in the Dedicated Schools Grant.

The non-maintained schools (typically operated by academies or the diocese) are no longer recognised on the Surrey County Council balance sheet due mainly to long-lease arrangements, so a side-contract would be required to support repayment to either Salix or Surrey County Council, as determined.

Finance for renewable energy would be secured separately (and is not included within the scope of the government's Salix fund). This could be through the Surrey-based Schools Energy Co-op,⁶ and provide an opportunity for Surrey residents to invest (with a secure return on investment) in Surrey's schools. A similar arrangement should be considered for renewable energy investment on Surrey-owned buildings as outlined above.

The combination of potential cost benefits and obligations to address the Climate Emergency merits a feasibility study that will provide the Council to make informed decisions – and a benchmarked framework to assess and enable future projects.

Phase 1 – Opportunity Benchmarking and Programme Design (6 months)

Opportunity-sizing: A high-level feasibility study to determine what combination of building fabric/insulation improvements, renewable energy, building controls, lighting and heating systems should be invested in for different types of school.⁷ This could be extended through grant funding and/or targeted capital investment to subsidise items that are near commercial viability.

As part of this Programme, there should be a review of the lease terms and the mechanisms for sharing the savings between school/direct schools grant and the Council to motivate participation and ensure schools 'pay as they save'. This would mean some of the long-term financial benefits are returned to the County Council and some to the schools themselves.

Together, this will produce a benchmarked programme and menu of options for different schools to invest in, and limit exposure to risk by ensuring that sufficient due diligence is in place prior to Phase 2.

⁶ See <https://schools-energy-coop.co.uk>.

⁷ A current Council commissioned study of 25 schools would complement this feasibility work.

Phase 2 – Investment Grade Audits and Implementation (24 months)

Follow-up with an investment grade audit of each school, to target the opportunity areas identified in the high-level appraisals and set out the specific investment case for each individual school. These audits would be classed as capital expenditure since the output would be a developed plan and specification for the works to be undertaken. Secure agreement for clusters of schools (e.g. different types of schools, grouped by age and heating system). Secure funding agreements either through Salix and/or a Surrey-owned revolving fund (as noted for Surrey’s own estate above). This could also make procurement and contracting easier, and creates an opportunity for the County Council to include BCorp certified suppliers*⁸ that can demonstrate the highest standards of social and environmental performance, to give best value to County residents.

The audits would focus upon all priorities for carbon reduction (not just solar PV and ASHP) and include a menu of opportunities such as building controls, insulation, glazing improvements, solar thermal, heat recovery, heating rezoning, voltage regulation, power factor control, etc.

Table 2. Breakdown of Costs to Survey School Estate

Source: Surrey County Council, 2021.

		Total No.	High level appraisals across targeted schools (revenue budget) 2021-2022		Investment grade audit surveys/ development (capital budget) 2021-2024
			Appraisal no.	Total cost	Total cost
Primary Schools	Maintained	131	13	31,200	1,048,000
	Not maintained	177	18	43,200	1,416,000
		308	31	74,400	2,464,000
	Maintained	28	6	38,400	448,000

⁸ See <https://bcorporation.uk/certification>.

Secondary Schools	Not-maintained	57	11	70400	912,000
		85	17	108,800	1,360,000
Total		393	48	183,200	3,824,000

Notes:

1. High-level appraisal proposed for 1 in 10 primary schools and 1 in 5 secondary schools. Investment grade audit for all schools.
2. High level appraisal estimated at £3k/primary school and £8k/secondary.
3. Survey costs for investment grade audit estimated at £10k/primary school and £20k/secondary.
4. 20% Efficiency saving for contracting across full estate.

Budget summary

Phase 1. £183k (all revenue costs, as noted in table above).

Phase 2. Survey costs: £956k in 2021-22, £1912k in 2022-23, £956k in 2023-24.

Capital costs to follow from surveys.

Cost in 2021-23 = 4% of £956k survey cost (capital budget) = £38k.

Staffing: 1FTE @ P12 grade (£70k), 0.5 FTE @ P9 grade (£23k) = £93k

Budget impact for 2021-22 = £314k, 2022-23 = £165k, 2023-24 = £129k.

Indicative pipeline of implementation costs: c. £100 million.

This proposal should be seen as additional to a basic maintenance programme to ensure we are sustaining the asset life and value of our school estate.

3. Surrey Decarbonisation Fund

The Schools proposal above shows the potential for Surrey County Council to cost-effectively and transparently maximise efforts for the rest of the public sector in Surrey to decarbonise, to match the Council's own ambition for net zero.

It demonstrates how the Council could create a visible and repeatable process of how it can lead in driving decarbonisation beyond its own assets and direct responsibilities. Through agreed standards and viable financing mechanisms, the County Council can look forward and plan a full decarbonisation plan across the country, with the Council taking a pivotal role. This approach would benefit from scaling efficiencies, developing new procurement processes that encourages Best Practice from suppliers, and would strengthen local businesses, creating new jobs across Surrey.

This could also bring in government finance (Salix, research and innovation funding) and provide a pathway to fund renewable energy schemes and an assured framework to leverage pension/private sector finance and ambition across Surrey.

The fund would be supported by a modest dedicated officer team but otherwise be cost neutral, operating as a circular fund where areas that generate a surplus can cross-subsidise areas that require policy change, demonstration and scale-up to become fully commercially viable.

Recommendations:

(amended wording in bold and underlined)

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

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

1. The Executive Director of Resources' (Section 151 Officer) conclusion that estimates included in the Final Budget Report and Medium-Term Financial Strategy are sufficiently robust in setting the budget for 2021/22; and
2. That it is the view of the Executive Director of Resources (Section 151 Officer), that the level of reserves is adequate to meet the Council's needs for 2021/22. These reserves include the following amounts, (totalling **£91.9m** **£91.3m**) set aside specifically to provide financial resilience:
 - a General Fund Balance of £24.2m;
 - a budget contingency of **£20.4m** **£19.8m** with an estimated £33.4m brought forward;
 - a specific contingency for the impact of Covid-19 of £4.9m; and
 - a provision of £9m to meet risks in delivering the Dedicated Schools Grant – High Needs Block cost containment plan.

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

2. Approves the net revenue budget requirement be set at £1,003.6 million (net cost of services after service specific government grants) for 2021/22 (Annex B), subject to confirmation of the Final Local Government Financial Settlement;
3. Approves the total Council Tax funding requirement be set at £777.6 million for 2021/22. This is an increase of 2.49%, made up of an increase in the level of core Council Tax of 1.99% to cover core Council services and an increase of 0.5% in the precept proposed by Central Government to cover the growing cost of Adult Social Care (Annex E);
4. Notes that for the purpose of section 52ZB of the Local Government Finance Act 1992, the Council formally determines that the increase in core Council Tax is not such as to trigger a referendum (i.e. not greater than 2%);
5. Sets the Surrey County Council precept for Band D Council Tax at £1,549.08, which represents a 2.49% uplift. This is a rise of £0.72 a week from the 2020/21 precept of £1,511.46. This includes £139.01 for the Adult Social Care precept, which has increased by £7.55.
6. Agree to maintain the Council Tax rate set after the Final Local Government Finance Settlement;
7. The Council Tax for each category of dwelling as set out in the table below:

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

8. The payment for each billing authority, including any balances on the Collection Fund, as set out in Annex E;
9. Delegate powers to the Leader and Executive Director of Resources (Section 151 Officer) to finalise budget proposals and recommendations to County Council, updated to take into account new

information in the Final Local Government Finance Settlement;

10. The Flexible Use of Capital Receipts Strategy for 2021/22 to meet the statutory guidelines for the use of such receipts to fund transformation and the move back into the County (Annex F);
11. The Total Schools Budget of £537.3 million to meet the Council's statutory requirement on schools funding;
12. The overall indicative Budget Envelopes for Executive Directorates and individual services for the 2021/22 budget (Annex B); and
13. The total ~~£1.905~~ **£1.917** billion proposed five-year Capital Programme (comprising ~~£1,026.2m~~ **£1,026.8m** of budget and ~~£879.2m~~ **£890.5m** pipeline) and approves the ~~£184.9~~ **£185.0** million capital budget in 2021/22 (Annex C).

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

14. The Capital and Investment Strategy (Annex G), which provides an overview of how risks associated with capital expenditure, financing, treasury and commercial investments will be managed as well as how they contribute towards the delivery of services; and
15. The policy for making a prudent level of revenue provision for the repayment of debt (the Minimum Revenue Provision (MRP) Policy) (Annex I)

Section 151 Officer commentary:

The capital and revenue costs set out in this proposal have been developed in consultation with officers from Highways and Transport, Environment, Property and Finance. The proposal is deemed to be viable and within the legal powers of the Council to implement.

The proposal for energy retrofit and renewable energy for Surrey schools should, if approved, be held in the Capital Pipeline pending the approval of a full business case. The cost of developing the proposals for individual schools can be capitalised if the works go ahead. In order to avoid the risk of abortive costs in developing interventions that are not pursued; commitment to proceed with viable works should be sought in advance. As is recognised in the proposal, the programme would need to be structured to ensure that savings from reduced energy costs (typically benefiting Dedicated Schools Grant budgets) can be offset against the borrowing cost of the agreed interventions (typically charged to the General Fund).

The revolving fund which this proposal expands is already held within the pipeline.

The proposal recommends the use of £0.6m of contingency in 2021/22 (growing from 2022/23 to cover additional borrowing) to provide for the revenue cost of delivering the schemes and the cost of additional borrowing. Although the Section 151 officer does not object to the proposal, caution is advised on the diversion of the contingency to any purpose other than the mitigation of financial risks.

Despite making good headway with building earmarked reserves and contingencies, the uncertain impact of Covid-19 coupled with the expectation of significantly reduced funding over the medium-term means that retention of the Council's Reserves will be essential in order to mitigate risk and provide sustainability and resilience in the delivery of services.