

SURREY COUNTY COUNCIL**CABINET****DATE: 31 JANUARY 2023**

REPORT OF CABINET MEMBER: **TIM OLIVER, LEADER OF THE COUNCIL**

LEAD OFFICER: **LEIGH WHITEHOUSE, DEPUTY CHIEF EXECUTIVE AND EXECUTIVE DIRECTOR FOR RESOURCES**

SUBJECT: **2023/24 FINAL BUDGET AND MEDIUM-TERM FINANCIAL STRATEGY TO 2027/28**

ORGANISATION STRATEGY PRIORITY AREA: **GROWING A SUSTAINABLE ECONOMY SO EVERYONE CAN BENEFIT/ TACKLING HEALTH INEQUALITY/ENABLING A GREENER FUTURE/EMPOWERING COMMUNITIES**

SUMMARY OF ISSUE:

The Council has worked hard over recent years to improve its financial resilience and the financial management capabilities across the organisation. This has strengthened our position, compared to where we were in 2018.

Through our hard work and diligent financial management, we have built a stronger financial base from which to deliver services. We have reduced our financial risk, delivered service improvement, ambitious investment and built back depleted reserves. We have continued to be responsible with taxpayer's money; minimising increases in Council Tax and delivering services in a more effective and efficient way, providing a stable platform to invest in the county's future, as well as enabling us to manage challenges and uncertainties, as evidenced throughout the pandemic.

However, the increased cost of living, global financial uncertainty and government policy changes, mean we continue to face challenges to our financial position in the coming years.

Our focus will continue to be on protecting service delivery, a continuation of the need to be forward looking to the medium term, as well as the delivery of appropriate efficiencies required to achieve a balanced budget position each year. We are however confident that our improved financial position and focus on budget accountability, provides a solid foundation for us to achieve this. We will concentrate on protecting our services to ensure our objective that no one in Surrey is left behind, can be fulfilled.

The Provisional Local Government Finance Settlement (LGFS) was released on the 19th December, with a final settlement due in January 2023. The funding announced was better than anticipated for Local Authorities, specifically in relation to additional funding for Adults Social Care, but demand and inflation pressures remain significant and while the additional funding is welcomed there remains difficult financial challenges for many local authorities.

We remain an ambitious and forward-looking organisation and we are optimistic in our ability to overcome these financial challenges. The Council has established a strong track record in recent years of delivering efficiencies and transformation and a total focus on our financial management responsibilities.

The overall outlook for 2023/24 is undoubtedly challenging, with budget envelopes in the key service areas increasing by 5.9% (£61.4m) in the face of substantially higher increases in the

cost of maintaining current service provision. Despite an increase in projected funding, there remain challenges in managing growth in demand (particularly in Adult Social Care and Children's Services), inflationary pressures and the ongoing impact of Covid-19 within those envelopes.

While we will continue to have conversations with Government around what we feel is fair and necessary for Surrey, we must look to the future and prepare properly for these anticipated budget impacts. A key component of our recent successes has been a determination to develop our own solutions and drive improvements and efficiency, rather than accept unchallenged the impact of external factors. The Council's Transformation Programme is ongoing and continually refreshed, to maximise every opportunity to deliver better services to our residents, in the most effective and efficient way possible.

The production of the 2023/24 budget has been developed through an integrated approach across Corporate Strategy, Transformation and Finance, aligning revenue budgets, capital investment and transformation plans with each Directorate's service plans and the corporate priorities of the organisation. Ensuring that each aspect of planning for 2023/24 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 increased cost of living, the medium term ongoing impacts of the Covid-19 pandemic and wider local government policy pressures.

The final budget for 2023/24 proposes total funding of £1,101.5m; an increase of £61.4m from 2022/23. In order to achieve a balanced budget, the budget includes the following recommendations to full Council on Council Tax and the Adults Social Care Precept:

- 0.99% increase in Council Tax
- 2% Adult Social Care Precept

The increase in the total bill for a Band D property will equate to £0.94p per week. Decisions to increase Council Tax are not made lightly and balance the need to provide sustainable services for the most vulnerable with a recognition of the pressures on household finances, particularly during the current cost of living crisis. The budget restricts the increase to 2.99% though the council does have the option to increase it by 5% as permitted by Government.

It is paramount that we continue to ensure that the County Council is in a resilient financial position, so that there is no risk of us failing to deliver the crucial services that we have responsibility for either in the short or medium term.

Our continuing ambition to deliver for Surrey residents is most evident in our £1.9bn, 5-year programme to invest in the assets and infrastructure of the county, and our commitment to delivering the Community Vision for Surrey in 2030. We have achieved a huge amount since 2018, but there is more to do.

The gap is expected to continue to grow over the medium term financial strategy period. The Council recognised that tackling this gap will require a medium-term focus and a fundamentally different approach. We are focusing not only on the short term pressures in 2023/24, but simultaneously looking to address the medium-term horizon. Cross-cutting Directorate transformation opportunities contribute to the efficiencies already identified in this proposed budget and work continues to identify additional areas of focus, including a planned organisational review.

Cabinet is required to consider and make recommendations to Council on:

- The Revenue and Capital Budgets for 2023/24, including efficiency proposals.
- The Council Tax Precept level for 2023/24.

- The Council's Capital Programme for 2023/24-2027/28.
- The Council's Capital, Investment and Treasury Management Strategy, which provide an overview of how capital expenditure, capital financing and treasury management activity contribute to the delivery of our services and sustain our capital investments.

The budget decisions and attached 2023/24 Final Budget Report and Medium-Term Financial Strategy, supported by Annexes, underpin the priorities set out in the Council's Organisation Strategy and refreshed Transformation Programme.

RECOMMENDATIONS:

It is recommended that:

Cabinet recommends that Council:

1. Approves the net revenue budget requirement be set at **£1,101.5 million** (net cost of services after service specific government grants) for 2023/24 (Annex B), subject to confirmation of the Final Local Government Financial Settlement.
2. Approves the total Council Tax Funding Requirement be set at **£866.0 million** for 2023/24. This is based on a council tax increase of 2.99%, made up of an increase in the level of core council tax of 0.99% and an increase of 2% in the precept proposed by Central Government to cover the growing cost of Adult Social Care (Annex E).
3. 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 3%).
4. Sets the Surrey County Council precept for Band D Council Tax at £1,675.08, which represents a 2.99% uplift. This is a rise of £0.94 a week from the 2022/23 precept of £1,626.39. This includes £217.94 for the Adult Social Care precept, which has increased by £32.46. A full list of bands is as follows:

Council tax by valuation band 2023/24

Valuation band	Core precept	ASC precept	Overall precept
A	£971.43	£145.29	£1,116.72
B	£1,133.33	£169.51	£1,302.84
C	£1,295.24	£193.72	£1,488.96
D	£1,457.14	£217.94	£1,675.08
E	£1,780.95	£266.37	£2,047.32
F	£2,104.76	£314.80	£2,419.56
G	£2,428.57	£363.23	£2,791.80
H	£2,914.28	£435.88	£3,350.16

5. Notes that underlying General Fund Balances are projected to remain at £48 million as of 1 April 2023.
6. Approves the Total Schools Budget of £599.3 million to meet the Council's statutory requirement on schools funding (as set out in Section 9 of the 2023/24 Final Budget and Medium-Term Financial Strategy to 2027/28).
7. Approves the overall indicative Budget Envelopes for Directorates and individual services for the 2023/24 budget (Annex B).

8. Approves the total £1,950.4 million proposed five-year Capital Programme (comprising £1,202.4 m of budget and £748.0m pipeline) and approves the £308.7 million Capital Budget in 2023/24 (Annex C).
9. Approves the Capital and Investment Strategy (Annex F - Sections 1 to 3), which provides an overview of how risks associated with capital expenditure, financing and treasury will be managed as well as how they contribute towards the delivery of services.
10. Approves the policy for making a prudent level of revenue provision for the repayment of debt (the Minimum Revenue Provision (MRP) Policy) (Annex G).
11. Agrees the Council's refreshed Transformation and Cross Cutting Efficiency Programme (as set out in section 3 of 2023/24 Final Budget Report and Medium-Term Financial Strategy to 2027/28)
12. Note that the investment in Transformation required to deliver improved outcomes and financial benefits is built into the proposed Medium-Term Financial Strategy (as set out in section 3 of 2023/24 Final Budget Report and Medium-Term Financial Strategy to 2027/28).

Cabinet notes that the Audit & Governance Committee has approved the following at its meeting on the 18th January 2023:

13. Treasury Management Strategy and Prudential Indicators (Annex F – Section 4) which set a framework for the Council's treasury function to manage risks, source borrowing and invest surplus cash.

REASON FOR RECOMMENDATIONS:

Council will meet on 7 February 2023 to agree a budget and to set the Council Tax Precept for 2023/24. Cabinet is required to recommend a budget to Council for consideration at this meeting. The budget directs available resources to support the achievement of the Council's ambitions and priorities in the 2030 Vision and the Refreshed Organisation Strategy.

The budget will also support the delivery of the continuing transformational changes that are required to ensure that the Council can improve priority outcomes for residents, while managing growing demand for services and ensuring future financial sustainability.

DETAILS:

1. The 2023/24 Final Budget Report and Medium-Term Financial Strategy to 2027/28 and supporting Annexes set out the context (both internal and external), approach and assumptions underpinning the development of the budget.

CONSULTATION:

2. Section 10 of the 2023/24 Final Budget Report and Medium-Term Financial Strategy to 2027/28 and Annex H attached to the report set out the consultation and engagement activity undertaken over the course of 2021 and 2022 as part of developing the budget, ensuring residents and stakeholders were able to inform the final budget.
3. Engagement activities included a commissioned in-depth research piece conducted in 2021 to understand residents' priorities for the budget. This research largely found that residents were concerned about council tax rises but were willing to explore this as an option to ensure that budgets of essential services were not cut at a detriment to vulnerable residents.

4. This research was built upon in 2022 by a series of engagement exercises including virtual focus groups, and a cost-of-living survey.
5. The 2022 Budget Consultation was launched in November and received 358 responses, largely from residents. It demonstrated similar findings to our 2021 engagement showing that residents were concerned about rising council tax in light of cost of living rises but were largely supportive of using council tax to fill the budget gap. This was backed by a concern for further cuts to services in adult and children's social care and environment, transport and infrastructure.

RISK MANAGEMENT AND IMPLICATIONS:

6. The attached report and Annexes have been prepared with a view to risk management from a financial, operational and reputational perspective. The financial risk implications are set out in Section 5 of the attached and exemplified in the s151 commentary below.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

7. The attached report considers financial and value for money implications throughout and future budget reports will continue this focus.

SECTION 151 OFFICER COMMENTARY

8. The Council has a legal requirement to set a balanced budget. 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 also require authorities to have regard to the level of Reserves to meet estimated future spend when calculating the budget requirement. The Budget report has been drafted on the basis of this legislation.
9. The enclosed report sets out a balanced budget for 2023/24. Given the level of risk and uncertainty inherent in both the local authority environment and the national economic and political environment, coupled with ongoing uncertainty over future funding levels, retention of the Council's reserves will be essential, in order to provide financial resilience.
10. Section 25 of the Local Government Act 2003 requires the Section 151 Officer to report on:
 - the robustness of the estimates made for the purposes of the [budget] calculations; and
 - the adequacy of the proposed financial reserves.
11. The Section 151 Officer confirms that the Final Budget has been based on reasonable assumptions, taking into account all material, financial and business issues and risks at the time of preparation.
12. The formal Section 25 report on the adequacy of reserves will be included in the 2023/24 Final Budget and Medium-Term Financial Strategy to 2027/28 report to Council on the 7th February 2023.

13. Section 5.35 of the 2023/24 Final Budget and Medium-Term Financial Strategy to 2027/28 sets out the level of key reserves and contingencies, **totalling £106m**:

- General Fund (£48m).
- Specific contingencies built into the 2023/24 budget (£20m); and
- Unused contingency brought forward from previous years (c£38m depending on 2022/23 outturn).

14. The following principles for the overall management of reserves are proposed:

- Reserves should only be used to fund one-off or time-limited investment that will drive out efficiencies, deliver the capital programme or improve the delivery of services and council priorities;
- Reserves cannot be used as a substitute for permanent efficiencies to meet permanent spending pressures;
- Budgets such as the Transformation Fund (£8m) and Capital Feasibility Fund (£5m) should be seen as contributions to reserves, with any use drawn-down from the reserve when needed;
- Reserve contributions should be reviewed annually to ensure contributions are equal to planned use over the medium-term;
- Over the medium-term, reserves should stay flat or ideally increase – as financial uncertainty, the efficiency requirement and the investment ambition will remain high across the MTFS period;
- Currently, General Fund and earmarked reserves (excluding technical balances such as PFI sinking funds and other reserves earmarked for specific purposes) stand at approximately £150m / 14% of the net budget.
- Reserves should not drop below 10% of the net budget.
- It is proposed to implement a 2% buffer over the 10% threshold, with remedial action taken if reserves are used for unforeseen financial shocks. This would establish the following three levels:
 - **Minimum** – reserves do not drop below 10% and, if they do, are rebuilt as soon as possible in the following years' budget
 - **Basic** – reserves do not drop below 12% (10% + 2% buffer) and, if they do, are rebuilt to at least 12% over medium-term
 - **Enhanced** – reserves stay flat or grow from the current c15%, dependent on analysis of the risk environment.
- To avoid a programmed reduction in reserves, the use of reserves to support Transformation or other investment should be less in any given year than the planned budget contingency.
- Unutilised risk contingency budget should first be used to ensure reserve levels are sustained, thereafter there is opportunity to invest in future years in strategic priorities, further transformation and/or service improvements (one-off costs). Any such investment should result in strengthening of the financial position, ie reducing risk or generating revenue efficiencies.

LEGAL IMPLICATIONS – MONITORING OFFICER

15. Whilst the Cabinet is being asked to recommend, and subsequently the Council asked to agree, the revenue budget and capital programme, the budget decision

does not constitute final approval of policies, or the sums of money to be saved under the service proposals except for those areas where there is a specific recommendation being made.

16. The revenue budget and capital programme recommendations in the report do not commit the Council to implement any specific efficiency proposal. When the Cabinet comes to make specific decisions on efficiencies, where necessary, focussed consultations and the full equality implications of doing one thing rather than another will be considered in appropriate detail. If it is considered necessary, in light of equality or other considerations, it will be open to those taking the decisions to spend more on one activity and less on another within the overall resources available to the Council.

EQUALITIES AND DIVERSITY

17. A comprehensive review of Equalities and Diversity was undertaken and is referred to in Section 11 of the attached Report and Annex I.

CORPORATE PARENTING/LOOKED AFTER CHILDREN IMPLICATIONS

18. This is set out in section 4 of the 2023/24 Final Budget Report and Medium-Term Financial Strategy to 2027/28

SAFEGUARDING RESPONSIBILITIES FOR VULNERABLE CHILDREN AND ADULTS IMPLICATIONS

19. This is set out in section 4 of the 2023/24 Final Budget Report and Medium-Term Financial Strategy to 2027/28.

ENVIRONMENTAL SUSTAINABILITY IMPLICATIONS

20. The Budget has been designed to support the implementation of the Council's corporate priorities, including enabling a Greener Future. Section 4 of the of the 2023/24 Final Budget Report and Medium-Term Financial Strategy to 2027/28 report sets out relevant implications.
21. Where proposals in this report have an Environmental Sustainability impact, this will be set out in full to Cabinet as part of the decision required to implement the proposal.

PUBLIC HEALTH IMPLICATIONS

22. This is set out in section 4 of the 2023/24 Final Budget Report and Medium-Term Financial Strategy to 2027/28.

WHAT HAPPENS NEXT:

23. Cabinet is requested to consider and agree the recommendations 1- 13 as set out above and recommend to Council on 7 February 2023 for approval.
24. Pending agreement, the Final Budget, MTFs, Organisation Strategy and Transformation Programme will be communicated to residents, staff, partners and other key stakeholders.
25. The refreshed Transformation Programme will be led and delivered by the respective Cabinet Members and Executive Directors, with all decisions in relation to specific constituent programmes and projects continuing to be subject to consultation and decision-making protocols in line with the Council's Constitution and Scheme of Delegation.

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Consulted:

Cabinet, Executive Directors, Heads of Service

Annexes:

2023/24 Final Budget and Medium-Term Financial Strategy to 2027/28

Annex A – Pressures and Efficiencies 2023/24

Annex B – Detailed Revenue Budget 2023/24

Annex C – Capital Budget 2023/24-2027/28

Annex D – Projected Earmarked Reserves and Balances

Annex E – Council Tax Requirement

Annex F – Capital, Investment and Treasury Management Strategy 2023/24

Annex G - Minimum Revenue Provision (MRP) Policy 2023/24

Annex H – Consultation Summary for 2023/24 Budget

Annex I – Equalities Impact Assessment for 2023/24 Budget

Annex J – Financial Management Code of Practice Assessment

Sources/background papers:

- [Provisional Local Government Finance Settlement 19 December 2022](#)
- [Draft Budget 2023/24 and Medium Term Financial Strategy to 2027/28 \(Cabinet 29th November 2022\)](#)