

SURREY COUNTY COUNCIL**CABINET****DATE: 28 NOVEMBER 2023****REPORT OF TIM OLIVER, LEADER OF THE COUNCIL****CABINET MEMBER:****LEAD OFFICER: LEIGH WHITEHOUSE, DEPUTY CHIEF EXECUTIVE & EXECUTIVE DIRECTOR RESOURCES****SUBJECT: 2024/25 DRAFT BUDGET AND MEDIUM-TERM FINANCIAL STRATEGY TO 2028/29**

ORGANISATION STRATEGY NO ONE LEFT BEHIND / GROWING A SUSTAINABLE ECONOMY SO EVERYONE CAN BENEFIT / TACKLING
PRIORITY AREA: HEALTH INEQUALITY/ ENABLING A GREENER FUTURE/ EMPOWERED AND THRIVING COMMUNITIES / HIGH PERFORMING COUNCIL



Purpose of the Report:

The Council has a statutory duty to set a balanced budget in advance of each financial year. The Final Budget for 2024/25 will be presented to Cabinet in January 2024 and Full Council in February 2024.

This report and the attached 2024/25 Draft Budget and Medium-Term Financial Strategy to 2028/29 sets out progress towards delivering a balanced budget. It is good practice to set out in advance the draft budget to allow consultation on, and scrutiny of, the approach and the proposals included.

Key Messages:

A strong focus on financial accountability has enabled the Council to improve its financial resilience and the financial management capabilities across the organisation. This has provided a strengthened position, enabling the Council to be ambitious and look to continue to drive improvements and investment in our services. However, we recognise that this financial year and the next 2-3 are likely to represent an extremely challenging period and our focus will be on protecting and improving service delivery in the first instance. During this period of uncertainty and financial challenge, this stability will not enable us to avoid difficult decisions but will allow us the time and space to make them in a considered and measured way. Being realistic about our ambitions, underpinned by an earned confidence in our ability to deliver efficiencies, will enable us to continue to deliver the Council's priorities.

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, with

a total focus on our financial management responsibilities whilst delivering a stronger and more effective organisation.

During the pandemic, the Council increased staff resources in a number of key areas to deliver increased activities and provide essential support to residents while continuing to improve services. Over the last 12 months, we have seen the headcount of the organisation reduce and the draft budget proposals see further decreases. Some of the largest areas of change include reductions as a result of the re-tender of facilities management contracts, the closure of in-house older people's homes and the ceasing of the school payroll provision. Through the Council's SWITCh (Surrey Way Innovation, Transformation & Change) Programme, further reduction in headcount is anticipated, as we aim to align our capacity to future available resources.

The production of the 2024/25 budget has been developed through an integrated approach across Corporate Strategy, Transformation and Finance, ensuring that revenue budgets, capital investment and transformation plans are aligned with each of the Directorate's service plans and the corporate priorities of the organisation. Ensuring that each aspect of planning for 2024/25 and the medium-term are aligned provides a stable foundation for delivering services to Surrey residents in the face of challenges presented by the increased cost-of-living, ongoing high inflation, continued increasing demand for vital services, the medium-term ongoing impacts of the Covid-19 pandemic and wider local government policy pressures.

Revenue

Although good progress has been made over the last few months, at the point of publication there remains a provisional budget gap for 2024/25 of £13.5m, driven primarily by significant inflation and the need to maintain the delivery of priority services which are experiencing significant cost and demand pressures.

The Draft Budget assumes a Band D rate increase of 1.99% on the core Council Tax and a 2% increase on the ASC precept. A total increase of 3.99%. This would result in Council Tax rising by £33.46 on the core and £33.50 on the ASC precept, a total annual increase of £66.96 for Band D properties. The proposed increase is currently below the maximum allowable by Government without the requirement to hold a referendum. 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 inflationary period and increased cost of living.

Despite the inflationary, cost and demand pressures being experienced, the Council remains committed in investing in service improvements. The Draft Budget proposals include revenue investment in a number of key improvement areas including:

- significant investment in supporting and enhancing bus transport services with the introduction of a half price travel scheme and expansion of the digital demand responsive transport scheme.

- supporting and enhancing highways and environment services, following a task and finish review undertaken by Cabinet earlier in the year, investment in a range of service improvements are proposed including refreshing road lines, additional investment in gully cleaning, area stewards and grass-cutting.
- Investment in preventative services including targeted early help and reunification of children back to their parental homes where safe to do so.

Further actions will be needed to close the remaining budget gap, which will be challenging, given the forecast level of pressures. The level of Council Tax raised, the potential need to utilise reserves and the extent to which further efficiencies will need to be identified, will partly depend upon the Local Government Finance Settlement in December, and confirmation of District and Borough Council Tax Bases in January.

In addition, there are a number of significant risks to the Draft Budget position. The in-year financial position is challenging, specifically in relation to the significant costs increases in children's social care placements and Home to School Travel Assistance. Any increase in these pressure for 2023/24 will have an ongoing impact on the 2024/25 budget and the medium term financial strategy.

Capital

Over recent years the Council's capital ambition and delivery has grown significantly. Our aspirations remain high and the Draft Capital Programme for 2024/25 – 2028/29 proposes ongoing investment in priority areas such as highways infrastructure, improving the condition of our property estate, creating additional school places including for children with special educational needs and disabilities, the green agenda, transforming our libraries and investing in adult social care accommodation with care and support.

Despite our continued ambitions, the economic environment has changed over recent years. High inflation is making delivery of capital schemes more expensive and successive interest rate rises have increased the cost of financing borrowing. In order to sustain our financial resilience, we need to tighten up and re-set our capital expenditure approach, to ensure the affordability and sustainability of our capital programme in the medium term.

The challenge of developing an affordable capital programme that effectively delivers the Council priorities has grown. Over the summer, investment plans have been robustly reviewed and schemes in the programme prioritised, re-scoped, removed or re-profiled to ensure that proposals best reflect the council's priorities and are deliverable within available financial and operational resources. Opportunities to utilise other sources of funding have been factored into the proposed budget.

The Council remains committed to Your Fund Surrey (YFS), however in light of the need to prioritise capital investment and based on historic applications, the overall amount made available has been reduced. Significant investment of £40m for the 2023/24 – 2025/26 period remains available 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. This investment includes the Small Community Project Fund which allocates each Councillor £50k to support capital community projects.

Our residents understandably want us to continue to make improvements to our highways and road network. The proposed capital programme includes £32m of additional expenditure on roads, highways and flooding & drainage directly related to the conclusions and recommendations of a task and finish group, which worked to review service delivery and put in place both immediate actions where possible and further opportunities in which to invest that will result in noticeable improvements for residents.

In addition, the Leader made a commitment in March 2023 to continue the enhanced programme of investment in highways maintenance put in place in 2022 until 2025/26. The capital programme includes enhanced investment in our highways of £79m through the maintenance programme and local highways schemes in 2024/25 and 2025/26, in addition to the £60m already spent over the last three years, accelerating the benefits and improvement to the condition of the network. Through this enhanced programme, we have increased spending across road and pavement schemes, targeting maintenance improvement in residential and pedestrian areas in particular. We have delivered a number of preventative schemes sooner than planned, increasing the resilience of the network and putting us in a better position to be able to manage the impacts of climate change.

The enhanced programme includes an increase to the councillors individual highways allocation to £120k for 2024/25 and 2025/26 in recognition of the particularly high inflationary impact at this time and enabling councillors to deliver a greater number of local priority schemes in addition to the main programme.

Medium Term Position

The gap is expected to continue to grow over the medium term financial strategy period.

The Council recognises that tackling this gap will require a medium-term focus and a fundamentally different approach which is why we are focusing not only on the short term pressures in 2024/25, but simultaneously looking to address the medium-term horizon.

Recommendations:

It is recommended that Cabinet:

1. note the 2024/25 Draft Budget and Medium-Term Financial Strategy to 2028/29, including progress to date in setting out spending pressures and efficiencies, as set out in Annex A.
2. note the provisional budget gap of £13.5m for 2024/25 and the next steps required to close the gap.
3. note the proposed Draft Capital Programme for 2024/25 to 2028/29 of £1.9bn set out in Section 6 of the report and Annex B.
4. note the summary of Resident Engagement and next steps set out in Section 9 of the report.

Reason for Recommendations:

In January 2024, Cabinet will be asked to recommend a Final Budget for 2024/25 to full Council for approval in February. The draft budget sets out proposals to direct available resources to support the achievement of the Council's corporate priorities, balanced against a challenging financial environment, giving Cabinet the opportunity to comment on the proposals and next steps.

The draft budget also provides an update on the Council's SWITCH (Surrey Way, Innovation, Transformation and Change) programme, setting out the medium to long term portfolio of redesign and transformational change that will enable greater financial sustainability for the Council.

Executive Summary:

1. The Draft 2024/25 Final Budget Report and Medium-Term Financial Strategy to 2028/29 and supporting Annexes set out the context (both internal and external), approach and assumptions underpinning the development of the budget.

Consultation:

2. Section 9 of the Draft Budget sets out the consultation undertaken to date and the plans for further consultation between now and approval of the Final Budget.

Risk Management and Implications:

3. 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 throughout Section 5 (Financial Strategy and Draft Budget 2024/25) of the attached document and exemplified in the S151 commentary below.

Financial and Value for Money Implications:

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

Section 151 Officer Commentary:

5. Significant progress has been made in recent years to improve the Council's financial resilience and the financial management capabilities across the organisation. Whilst this has built a stronger financial base from which to deliver our services, the increased cost of living, global financial uncertainty, high inflation and government policy changes mean we continue to face challenges to our financial position. This requires an increased focus on financial management to protect service delivery, a continuation of the need to be forward looking in the medium term, as well as the delivery of the efficiencies to achieve a balanced budget position each year.
6. In addition to these immediate challenges, the medium-term financial outlook beyond 2023/24 remains uncertain. With no clarity on central government

funding in the medium term, our working assumption is that financial resources will continue to be constrained, as they have been for the majority of the past decade. This places an onus on the Council to continue to consider issues of financial sustainability as a priority, in order to ensure the stable provision of services in the medium term.

7. The Council has a duty to ensure its expenditure does not exceed the resources available. The Section 151 Officer confirms that the Draft Budget has been based on reasonable assumptions, taking into account all material, financial and business issues and risks at the time of preparation.

Legal Implications – Monitoring Officer:

8. The draft budget does not constitute final approval of policies or sums of money to be saved under the service proposals. The proposed draft revenue budget and capital programme in the report do not commit the Council to implement any specific efficiency proposal.
9. If the Cabinet is required to consider making specific decisions on efficiencies, focussed consultations and the full equality implications of implementation 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:

10. Where appropriate, Equality Impact Assessments have or will be undertaken to assess the efficiency proposals set out in budget, along with any further measures that emerge as part of closing the draft budget gap. Proposals will only be implemented once Members have actively paid due regard and considered all possible actions and mitigations to achieve the aims of the Public Sector Equality Duty, namely the need to:
 - Eliminate discrimination, harassment, victimisation or any other conduct prohibited by or under the Act;
 - Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
 - Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
11. A report on the cumulative equality implications of the efficiency proposals to identify multiple impacts on the same groups, as well as individual Impact Assessments for proposals that need them, will be presented to Cabinet in January.

What Happens Next:

12. Section 10 of the report sets out detailed next steps; in summary they are:
 - a) Review income and funding assumptions - particularly in light of the Local Government Finance Settlement;

- b) Ensure that contingencies in the 2024/25 budget are set at the appropriate levels, reflecting the current high-risk environment and providing resilience to deal with continuing uncertainty, specifically around the economy, policy changes and inflation;
- c) Review the Council's level of reserves, recognising the need to balance ongoing financial resilience with ensuring funds are put to best use.
- d) Consider further Council Tax rises, balancing the need to provide sustainable services for the most vulnerable with a recognition of the pressures on household finances.
- e) Review Directorate budget envelopes for further efficiencies; and
- f) Continue to review opportunities and drive further cross cutting efficiencies.

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Consulted:

Cabinet, Executive Directors, Heads of Service

Annexes:

Annex A – Draft Directorate Pressures and Efficiencies

Annex B – Draft Capital Programme

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