

**SURREY COUNTY COUNCIL****CABINET****DATE: 26 NOVEMBER 2024****REPORT OF CABINET MEMBER: TIM OLIVER, LEADER OF THE COUNCIL****LEAD OFFICER: ANDY BROWN, DEPUTY CHIEF EXECUTIVE & EXECUTIVE DIRECTOR OF FINANCE & CORPORATE SERVICES (S151 OFFICER)****SUBJECT: 2025/26 DRAFT BUDGET AND MEDIUM-TERM FINANCIAL STRATEGY TO 2029/30****ORGANISATION STRATEGY PRIORITY AREA: NO ONE LEFT BEHIND / GROWING A SUSTAINABLE ECONOMY SO EVERYONE CAN BENEFIT / TACKLING 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 2025/26 will be presented to Cabinet in January 2025 and Full Council in February 2025.

This report and the attached 2025/26 Draft Budget and Medium-Term Financial Strategy to 2029/30 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:**

The Local Government financial climate is extremely challenging. The national picture for public services is one of constrained financial resources. A number of local authorities, across the Country, are struggling to balance available funding with significantly increasing demand and cost pressures.

The Council is experiencing the pressures felt across the country and the financial environment in which we operate requires us to make challenging decisions about the services we provide. The Council ended 2023/24 with a small overspend, which necessitated the use of reserves to balance the financial position, for the first time in a number of years. Moving forward, the current financial year budget requires the delivery of £54m of efficiencies and while we are making good progress against this target, in-year pressures, specifically in relation to adult's and children's social care placements and Home to School Travel Assistance, mean we are currently forecasting an overspend for 2024/25.

The Council's financial position is anticipated to remain challenging over the medium term. While many of the demands we are experiencing are not unique to this Council, we cannot rely on Government, or our partners, to solve the issue for

us. We need to reduce our costs and take difficult decisions in order to ensure our ongoing financial resilience. 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.

A focus on financial resilience is crucial and part of the strategy will be to ensure we have adequate reserves to ensure we can transform, alongside making sure we provide for any changes to funding or unexpected effects on costs.

The Council will continue to maintain a strong focus on financial accountability across the organisation to ensure we can both protect and continue to drive improvements in our vital services and ensure No One Left Behind.

On 30 October 2024 the Chancellor of the Exchequer, delivered her first Budget Statement before the House of Commons, setting out the Government's fiscal rules and policy decisions on taxation and spend.

Government figures indicate an average increase in Core Spending Power (CSP) of 3.2% in 2025/26 nationally. A significant proportion of this increase comes from the presumption that all councils will levy the maximum increase in council tax permitted. Announcements included £1.3 billion of additional grant funding for local authorities, including at least £600 million for social care. The amount that the Council will receive is heavily dependent on the distribution methodology and formula adopted in determining individual authority allocations.

Government also announced increases to both Employer National Insurance Contributions and the National Living Wage (NLW). Both of these were higher than the existing assumptions in the budget and will lead to increased cost pressures, increasing the budget gap. The rise in the NLW will increase the Council's own wage bill as well as that of many of our suppliers, which will feed through into increased costs, widening the budget gap. Funding for the impact of the increase in National Insurance contributions for local authorities was announced simultaneously, although there are no details on how this funding will be made available. There remains a risk that funding is not sufficient to offset the increase in the Council's wage bill experienced through this change.

While the announcements gave us some indication of the funding that will be made available to Local Authorities in 2025/26, the first opportunity to understand in detail the direct impact of funding arrangements for the Council will be with the provisional Settlement itself, which is expected in late December 2024, with a final settlement in January 2025. Until this is available, significant uncertainty on funding remains, with little expectation of any major changes from the funding available in the current financial year, or certainly not enough to fill the forecast budget gap.

## **Revenue**

Although good progress has been made over the last few months, at the point of publication there remains a provisional budget gap for 2025/26 of £17.4m, driven primarily by the need to maintain the delivery of priority services experiencing increasing demand pressures and higher than inflationary price increases.

The Draft Budget assumes a Band D rate increase of 2.99% on the core Council Tax. This would result in an annual Council Tax increase of £52.58 for Band D properties. The proposed increase is currently below the anticipated 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 times of increased cost of living.

Further actions will therefore be required to close the gap, which will be extremely challenging, given the level of pressure forecast, and may require the Council to postpone some activity that contributes directly to the achievement of our ambitions. The level of Council Tax raised, will be dependent upon progress in identifying further efficiencies and in part 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 and adults social care placements and Home to School Travel Assistance. Any increase in these pressures for 2024/25 will have an ongoing impact on the 2025/26 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 2025/26 – 2029/30 proposes ongoing investment in priority areas such as highways infrastructure, improving the condition of our property estate, flood alleviation schemes, 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.

The challenge of developing an affordable capital programme that effectively delivers the Council priorities has grown. Despite our continued ambitions, the economic environment has changed over recent years. The recent high inflation environment and increases to interest rates have made the delivery of capital schemes more expensive and have increased the cost of financing borrowing. In order to sustain our financial resilience, we have re-set our capital expenditure approach, significantly reducing the proposed capital borrowing requirement, to ensure the affordability, proportionality and sustainability of our capital programme in the medium term.

## **Medium Term Position**

The medium term budget pressures are expected to continue to grow. In addition, changes as a result of a Funding Reform are likely to have a significant impact and increase the Council's reliance on Council Tax. The Council recognises that tackling these challenges will require a medium-term focus, meaning we need to not only look to close the residual gap in 2025/26, but simultaneously look to address the medium-term horizon.

## **Recommendations:**

It is recommended that Cabinet:

1. notes the 2025/26 Draft Budget and Medium-Term Financial Strategy to 2029/30, including progress to date in setting out spending pressures and efficiencies, as set out in Annex A.
2. notes the provisional budget gap of £17.4m for 2025/26 and the next steps required to close the gap.
3. notes the proposed Draft Capital Programme for 2025/26 to 2029/30 of £1.4bn set out in Section 6 of the report and Annex B
4. notes the summary of Resident Engagement and next steps set out in Section 9 of the report.

## **Reason for Recommendations:**

In January 2025, Cabinet will be asked to recommend a Final Budget for 2025/26 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.

## **Executive Summary:**

1. The Draft 2025/26 Final Budget Report and Medium-Term Financial Strategy to 2029/30 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 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 2025/26) 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. The Council continues to operate in a very challenging financial environment. Local authorities across the country are experiencing significant budgetary pressures. Surrey County Council has made significant progress in recent years to improve the Council's financial resilience and whilst this has built a

stronger financial base from which to deliver our services, the cost of service delivery, increasing demand, financial uncertainty 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 deliver financial efficiencies and reduce spending to achieve a balanced budget position each year.

6. In addition to these immediate challenges, the medium-term financial outlook beyond 2024/25 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:

- Review income and funding assumptions - particularly in light of the Local Government Finance Settlement;
- Ensure that reserves and contingencies in the 2025/26 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;
- Review the Council's level of reserves, recognising the need to balance ongoing financial resilience with ensuring funds are put to best use.
- 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.
- Review Directorate budget envelopes for further efficiencies; and
- Continue to review opportunities and drive further cross cutting efficiencies.

13. The Final Budget Report will include a number of additional sections including the statutory requirement for the s151 officer to comment on the robustness of the estimates made for the purposes of the budget calculations and the adequacy of the proposed financial reserves (known as a Section 25 report). In addition, the Final Budget will include the formal approval of the Council Tax Requirement for 2025/26 and the Capital, Investment & Treasury Management Strategy.

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**Report Author:** Andy Brown, Deputy Chief Executive and Executive Director of Finance & Corporate Services, [andy.brown@surreycc.gov.uk](mailto:andy.brown@surreycc.gov.uk)

**Consulted:**

Cabinet, Executive Directors, Heads of Service

**Annexes:**

Annex A – Draft Directorate Pressures and Efficiencies

Annex B – Draft Capital Programme

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