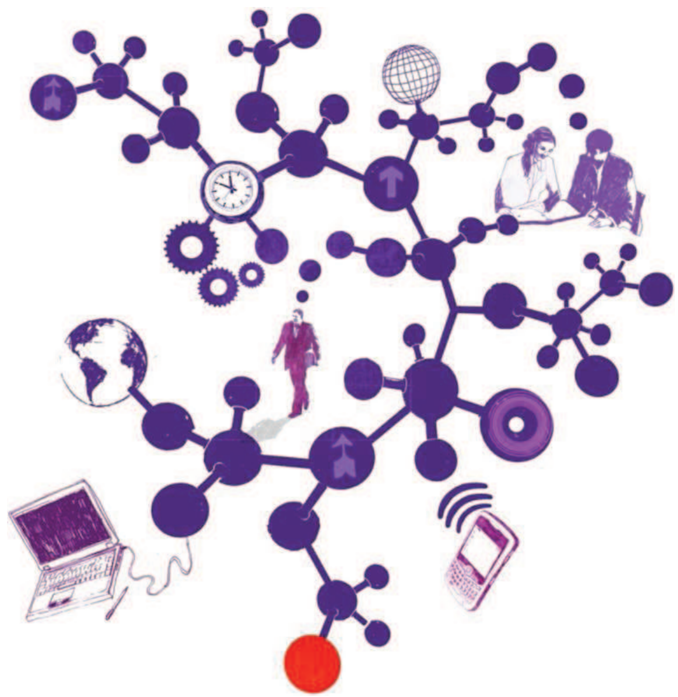
Grant Thornton

# Report on Value for Money for Surrey County Council

**Year ended 31 March 2014**

**22 July 2014**

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

# Contents

# Introduction

## What is this report?

This report summarises the findings from our work supporting our Value for Money (VfM) conclusion, which is required as part of the statutory external audit responsibilities.

It compliments our Audit Findings Report, by providing additional detail on the themes that underpin our VfM conclusion.

## Value for Money Conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission, which support our reporting responsibilities under the Code.

These criteria are:

**The Council has proper arrangements in place for securing financial resilience**: the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future (defined by the Audit Commission as "twelve months from the date of issue of the report".)

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness**: the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The Code require auditors to identify significant risks to the VfM conclusion and to plan sufficient work to evaluate the impact of those risks, if any.

## Our approach

The approach involves:

- desktop analysis of relevant documentation
- meetings with key internal stakeholders
- a risk assessment to identify any significant risks.

Our approach is designed to assess:

- arrangements in place related to the specified criteria
- performance during 2013-14 and what that says about those arrangements
- any significant risks that we have identified.

# Introduction

## What is this context?

**Nationally**

The 2010 Spending Review set the Coalition Government's financial settlement for the four years to 2014/15, and the 2013 Review then covered 2015/16. By the end of this period, central funding to local government will have reduced by 35%.

2013/14 is the fourth year of councils having to deliver efficiency savings in response to the 2010 Spending Review and, given the 2013 Spending Round and the budget statement in 2014, this will need to continue for the foreseeable future. Delivering these efficiency savings and maintaining financial resilience is becoming increasingly difficult, even for top-performing councils. Challenges other than government funding reductions include:

- demographic pressures;
- reducing income from fees and charges;
- limitations on the ability to finance capital projects;
- responding to welfare reform; and
- the drive towards more integrated health and social care.

To fulfil their statutory requirements, councils must continue to provide certain services. But the opposing trends in funding and demand will create a sizeable funding gap even if carefully managed. In short, the sector is working through its greatest financial challenge since the 1920s.

**Locally**

Surrey is a densely populated County in the south-east of England with a population of over one million people spread across eleven boroughs.

The County Council is led by a majority Conservative administration and has a net annual budget of over £1.5billion.

A challenging savings programme is in place, with plans to deliver savings of £231m in the five years to March 2019. The Council has already achieved savings of over £250m in the past four years. In addition to this the Council is forecasting increasing demand for services, particularly in the areas of Adult Social Care and Schools. Overall, for the period 2014/19, the Council will invest an additional £135m on top of its existing school places capital programme.

The Council is constrained with regards to raising funding because 35p in every £1 of the net budget requirement comes from Council Tax. As a result of this, the Council took the decision for both 2012/13 and 2013/14 to decline the Council Tax Freeze Grant in order to avoid an on-going funding gap.

Now, more than ever, it is important that councils have sound arrangements for securing Value for Money.

# Executive Summary

## Overall Risk Assessment

In planning our work on the VfM conclusion we identified the following areas of focus:

- the progress the Council has made in implementing the recommendations raised in our 2012/13 Financial Resilience report
- the Council's revised Medium Term Financial Plan in the light of the Local Government finance settlement
- the Better Care Fund plan for Surrey
- the Council's value for money assessment of its Waste PFI scheme
- the impact of the winter storms and flooding on the Council's finances

## Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

## Key findings

**Securing financial resilience**

We have undertaken a review which considered the Council's arrangements against key indicators of financial performance and the three expected characteristics of proper arrangements, as defined by the Audit Commission:

- strategic financial planning
- financial governance
- financial control.

Overall our work highlighted one area of significant risk:

- Arrangements for project managing and profiling capital expenditure

**However, in all other areas and overall, the Council has adequate or better arrangements in place.**

**Challenging economy, efficiency and effectiveness**

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

Overall our work highlighted no areas of significant risk.

**Therefore, the Council has adequate or better arrangements in place.**

# Executive Summary

We use a red/amber/green (RAG) rating with the following definitions.

| | |
|---|---|
| **Green** | **Adequate arrangements appear to be in place** |
| **Amber** | **Adequate arrangements, with areas for development** |
| **Red** | **Inadequate arrangements** |

## Overview of arrangements

| Risk area | Summary observations | High level risk assessment |
|---|---|---|
| **Key Indicators of Financial Performance** | The Council achieved an underspend of £6.9m against its revenue budget in 2013/14, but underspent by £6m on its capital budget of £230m, taking into account £38.4m spent on investment properties. The expenditure on investment properties was not included in the original capital budget, meaning that the underspend would otherwise have been £44.4m.<br><br>For 2013/14 the Council had a savings target of £68.3m, which was set out in its Medium Term Financial Plan (MTFP). At the end of 2013/14 £62.3m was achieved, a shortfall of £6m, which was met through countervailing savings.<br><br>As at 31 March 2014 the Council has net liabilities of £244m (net liabilities of £39m as at 31 March 2013 and net assets of £70m as at 31 March 2012). Net liabilities have increased due to an increase in the long-term net pension liability of £132m (£134m increase in 2012/13) following the triennial revaluation that took place during the year. This net pension liability is a long-term accounting treatment and does not represent a cash impact on the Council in the medium term.<br><br>The Billing Authorities acting on behalf of the Council achieved a Council Tax collection rate of 98.3% against a budget of 98.8%. This has resulted in a collective surplus to year-end of £8.7m. This is the largest surplus that has been achieved since 2006/07. A higher surplus has been achieved due to the Billing Authorities over-estimating their bad debt provision at the start of the year.<br><br>The Council chose to obtain short-term borrowing of £24m at the year-end to manage a short-term cash shortfall, which was caused by higher than expected capital expenditure in March. This precautionary short-term borrowing was at an advantageous interest rate and there was no net cost to the council. The Council maintains a comparatively low level of borrowing.<br><br>As at March 2014 the average sickness absence was 6.44 days per FTE (7.2 days in 2012/13). This is below both the public sector and local government average, as well as now being similar to the private sector average. This has been achieved by the implementation of a process called the "Bradford factor" which focuses on root causes rather than numbers of days absence. | Green |

# Executive Summary

## Overview of arrangements

| Risk area | Summary observations | High level risk assessment |
|---|---|---|
| Strategic Financial Planning | As a consequence of the Central Government Spending Reviews the Council identified, as part of its annual update of the MTFP, required reductions in revenue spending of £68.3m in 2013/14 and £73m during 2014/15. The total savings required for the period 2014/15 to 2018/19 are forecast to be £231m.<br><br>Going forward the Council will need to continue to reassess its MTFP in light of the changes enacted by the Care Act 2014 and any implications from the Better Care Fund plans for Surrey. These are national issues and represent areas of risk for the Council since the budgetary and operational impact from both are significant and uncertain.<br><br>The Council has been required to significantly amend its capital projections for 2014/15 to 2018/19 due to the increasing number of schools places required (4,000 additional places are needed). This has led to a planned increase in capital expenditure on schools from £42m to £69m in 2013/14; and for 2014/15 capital investment in school places has increased from £81m to £105m. Overall, for the period 2014/19, the Council will invest an additional £135m on top of its existing school places capital programme. The Council is currently revisiting its schools' capital projections as part of the most recent quarterly refresh of the MTFP.<br><br>The Council will need to ensure that its Plan remains responsive, given the scale of the savings still required, and the financial uncertainty that remains within the timeframe of the Plan. The Council has updated its MTFP following the reprofiling of PFI credits from DEFRA and has taken into account the impact of flooding, which amounts to £11m for the estimated cost of the immediate response and temporary repairs associated with this, with £5.3m to be incurred in the current financial year. £10m of the total relates to local highways. In the longer term the estimated cost to repair highways resulting from flooding damage and prior bad weather is in the region of £15m, but this is subject to a final assessment being undertaken. | Green |

# Executive Summary

## Overview of arrangements

| Risk area | Summary observations | High level risk assessment |
|---|---|---|
| **Financial Governance** | The Council has improved scrutiny of its Local Authority Trading Companies.  There are now two Boards in place - the Investment Advisory Board and Shareholder Board.  The Investment Advisory Board is chaired by the Leader and reviews and recommends investments to Cabinet.  The Council has developed a property investment portfolio and although the final targets in the MTFP are not yet due, income has been increased in this area.  Investments to date have been made under powers delegated to the Council under statute.<br><br>The Council has made further improvements to financial understanding through making changes to strategic director roles, via network leadership where networks of senior managers, Cabinet members and experts are set up for each area.  There is also a Continual Improvement Board, which involves a wider group of senior managers to discuss corporate issues such as budget monitoring, productivity and service improvement.<br><br>One area of particular good practice is the publication of an Annual Report that is designed specially for public use as soon as the Council's outturn position is known.  For the first time in 2013/14 the Annual Report will include summary audited financial statements. | Green |
| **Financial Control** | The Council underspent  by £6m against its capital budget of £230m,  after including £38.4m spent on investment properties, which were not included in the original budget.  This is mainly due to the decision to carry forward £32.6m of capital expenditure into 2014/15 as a result of re-profiling and £11.7m of capital expenditure was postponed due to the adverse weather conditions.<br><br>The Council chose to obtain short-term borrowing of £24m at the year-end to manage a short-term cash shortfall, which was caused by higher than expected capital expenditure in March. This precautionary short-term borrowing was at an advantageous interest rate and there was not net cost to the council. Increased capital costs may be an area of increased risk because as the economy improves the capital programme becomes more challenging given supply and demand issues in the construction industry.<br><br>In 2013/14, the Council achieved recurrent savings of £62.3m against a target of £68.3m.  This compares to 2012/13 when the Council achieved recurrent savings of £66m against a target of £71m, although countervailing savings ensured that an overall revenue underspend was achieved in-year.  Within the monthly budget reporting to Cabinet, non-recurrent savings are now clearly explained so that it is clear to members that this saving will have to be achieved going forward as well. | Green |

# Executive Summary

## Overview of arrangements

| Risk area | Summary observations | High level risk assessment |
|---|---|---|
| **Prioritising Resources** | Strategy development has been led by the Cabinet. Significant work is ongoing in relation to developing the MTFP and savings programme in light of the recent changes made by Central Government. The Council has a sound understanding of the main risks it faces and these relate to erosion of the Council's main sources of funding, delivery of the major change programmes and associated efficiencies; delivery of the waste infrastructure; and changes to health commissioning.<br><br>Staff engagement has been key to the achievement in delivering efficiency savings, for example through increased involvement at a service level through strong liaison with service leads and teams. Partnership working is critical to the Council given the nature of its service delivery.<br><br>Information Governance is identified on the Leadership risk register as a high risk and a recent audit suggests that significant further work is required to raise awareness of the risks across the organisation. Whilst the Council has identified mitigating actions through the action plan, these are being introduced at different points during 2014/15 and thus this area remains a high risk to the Council. | **Green** |
| **Improving Efficiency & Productivity** | Cabinet receives monthly budget report on costs, demonstrating a high degree of understanding of costs at a service level within each directorate. The reports show a detailed breakdown each month detailing the reasons for a variation compared to budget and the achievement of efficiency savings<br><br>The Council continues to improve its data both internally and with partners. Key changes include supporting members' awareness of data and its usage, refreshing the data quality strategy and working with partners on the robustness of data. New technology has been piloted in some areas such as the financial dashboard to aid quicker decision making. There is a data quality corporate action plan and each directorate also has an action plan.<br><br>The Council has not been the subject of any adverse OFSTED inspections during the year and DEFRA have continued in their support of the Waste PFI scheme , maintaining funding following an NAO review into DEFRA's procedures. Surrey County Council's scheme is now the only Waste PFI scheme whose funding has not been reduced by DEFRA. | **Green** |
| **Management of Natural Resources** | The development of a waste strategy is included in the Leadership Risk Register. The Council recognises that failure to deliver key waste targets (including key waste infrastructure, such as the Eco Park) will lead to increased cost to residents and tax payers and impacts on the environment. To address this risk it has increased resources in this area and project planning is monitored by the Waste Board. The Council is undertaking further work with the Districts and Boroughs to review waste plans to achieve the targeted increase in recycling. | **Green** |

# Executive Summary

## Next Steps

| Area for consideration | Recommendation | Responsibility | Timescale | Management response |
|---|---|---|---|---|
| **Key Indicators of Financial Performance**<br>Reserves balances | As at 31 March 2014 the Council's balance sheet shows net liabilities of £243m, caused by an increase in the long term pension liability of £133m. We do not consider this to be a significant risk to the Council in the medium term, but is something that should be considered as part of long-term planning. | DoF | Feb 2015 | The Council are reviewing the reserves and balances policy informally with the Cabinet during the budget planning process and will formally propose any adjustments as part of the MTFP in Feb 2015.<br>The increase in the pension reserve represents an increase in the pension liability due to the tri-annual valuation undertaken by the Council's independent actuaries. This liability represents an accounting adjustment and does not need to be met immediately, but over the lifetime of the scheme members. The Council is making appropriate lump sum payments to the pension fund in addition to the contributions related to current employees. |
| **Strategic financial planning**<br>Focus of the MTFP | The Council should review its MTFP to ensure it appropriately responds to the requirements of the Care Act 2014 and any implications from the changes arising from the Better Care Fund for Surrey | DoF | Feb 2015 | The Council are working pro-actively with Department of Health on modelling and influencing the Care Act implications and will be up-dating existing assumptions in the up-dated MTFP 2015-20 by Feb 2015.<br>The Council will continue throughout the year to develop detailed local plans to ensure the provisionally agreed level of BCF contributes to sustaining adult social care services. |

# Executive Summary

| Area for consideration | Recommendation | Responsibility | Timescale | Management response |
|---|---|---|---|---|
| **Strategic financial planning**<br>Adequacy of planning assumptions | Due to the continuing increase in demand for Adult Social Care Services, the Council should continue to review its MTFP to ensure longer-term assumptions are appropriate. | DoF | Feb 2015 | The budget planning process includes monthly informal workshops with Cabinet /CLT at which assumptions will be refreshed – although with a particular focus on assumptions planned for 23 Sept workshop |
| **Financial Governance**<br>Understanding of the financial environment | The roll-out to date of the financial dashboard has had demonstrable improvements but the Council need to ensure the use of this and associated behaviours are fully embedded across all services areas. | DoF | March 2015 | The roll out programme continues together with supplementary programmes to continually improve financial literacy of budget holders and senior managers throughout 2014/15. |
| **Financial control**<br>Budget setting & monitoring - revenue & capital | The Council should review its budget setting procedures to ensure:<br>1) Improved profiling of expenditure for budget setting and consideration of capital project management effectiveness.<br>2) Cashflow impacts are understood and can be planned for. | DoF | On-going | A planned quarter 1 refresh of the capital programme was submitted to Cabinet on 22 July 2014 that adjusted the profile of the capital programme in light of recent programme reviews (in particular land purchases). A further review will be undertaken by Nov 2014 by the Cabinet ahead of formal up-date of the programme in Feb 2015.<br>Consideration will be given to increasing the reporting of cashflow to Cabinet as part of the regular budget monitoring reports.<br>A detailed presentation of cashflow policy was shared informally with Cabinet on 14 July |
| **Improving efficiency and productivity**<br>IT Systems and Data quality | Information Governance is identified on the Leadership risk register as a High Risk and a recent audit of Information Governance suggests that significant further work is required to raise awareness of the risks across the organisation. The Council needs to implement the mitigating actions identified. | Assistant Chief Executive | By March 2015 | The audit report MAP identifies a number of mitigating actions that are being put in place throughout 2014/15.<br>In addition, the Chief Executives Office continue to review the risk on a monthly basis. |

# Key Indicators of Financial Performance

| Area of focus | Summary observations | RAG-Rating |
|---|---|---|
| **Liquidity** | The Council's working capital ratio has reduced from 1.71 in 2007/08 to 1.16 in 2012/13, with decreases every year except 2010/11 and 2011/12. The ratio showed a much steeper decline for the Council than for its statistical nearest neighbours, reaching a low of 0.76 in 2009/10, before returning close to the average of 1.5 in 2011/12. The Council's working capital ratio dropped to 1.16 in 2012/13 due to the repayment of £130m of borrowing in that year.<br><br>As at 31 March 2014, the Council's working capital ratio is 0.75. This reduction is mainly due to the reduction in cash and cash equivalents, together with borrowing of £24m at year-end to manage a short-term cash shortfall. The Council chose to obtain short-term borrowing of £24m at the year-end to manage a short-term cash shortfall, which was caused by higher than expected capital expenditure in March. This precautionary short-term borrowing was at an advantageous interest rate and there was no net cost to the council.<br><br>Net current assets decreased by £72m from 2008/09 to 2009/10 with counteracting increases in 2010/11 and 2011/12. The Council has reduced its minimum cash balance through the repayment of a £68m loan that fell due in September 2013. This was to maximise the benefit of unprecedented low interest rates. It is this repayment that reduced the working capital ratio for the year.<br><br>The Council should continue to monitor its liquidity to ensure financial resilience is maintained.<br><br>The Billing Authorities acting on behalf of the Council achieved a Council Tax collection rate of 98.3% against a budget of 98.8%. This has resulted in a collective surplus to year-end of £8.7m. This is the largest surplus that has been achieved since 2006/07 and is different from the position being projected in January month-end reports because of the Billing Authorities over-estimating their bad debt provision at the start of the year. This indicates that there may be issues to address at the Boroughs and Districts since authorities may have been overly pessimistic in estimating the impacts of Local Council Tax Support Scheme (LCTSS) and the technical changes to Council Tax discounts and exemptions.<br><br>The estimated 2013/14 Collection Fund position in relation to Business Rates reported in 2014/15 NNDR1 forms was for a collective deficit of £19.4m. Of this, £1.9m relates to the Council against an original budgeted deficit of £1.2m.<br><br>Council Tax is forecast to represent 35% of the Council's income in 2014/15, with 41% coming from grants and 15% from Business Rates. | **Green** |

# Key Indicators of Financial Performance

| Area of focus | Summary observations | RAG-Rating |
|---|---|---|
| **Borrowing** | The ratio of long term borrowing to long term assets is 0.24 in 2013/14 compared to 0.18 in 2012/13, 0.24 in 2011/12 and 0.23 in 2010/11 and 2009/10.<br><br>The ratio of short term borrowing to revenue is 0.03 in 2013/14 compared to 0.05 in 2012/13, 0.018 in 2011/12 and 2009/10, whilst in 2010/11 it was 0.016. The increase in 2012/13 related to the short-term loan to be repaid in September 2013 and the 2013/14 ratio has decreased due to this repayment. This is in line with the Council's Treasury Management Strategy.<br><br>The comparatively low borrowing ratios are a result of the high level of usable reserves held by the Council and the strategic aim of having low levels of borrowing. This has been compounded by the low interest rate levels which means that it is more financially sound for the Council to use cash balances to reduce the level of borrowing. | **Green** |
| **Workforce** | As part of the quarterly business reports presented to the Council Overview and Scrutiny Committee, sickness absence levels are monitored against directorate-specific and Council-wide targets, as well as against a CIPD local government benchmark.<br><br>As at March 2014 the average sickness absence was 6.44 days per FTE (7.2 days in 2012/13). This is below both the public sector and local government average, as well as now being similar to the private sector average. In line with expectations the Adult Social Care directorate was the worst performing with 7.83 (9.71 in 2012/13), whilst other services such as the Chief Executive's Office perform better (3.32 days per FTE).<br><br>The Council has improved performance across all directorates during 2013/14 and is under the Public Sector average for 2012/13 of 8.7 days per FTE. The Council use a system of monitoring sickness called the "Bradford Factor", which reviews the number of days per person off sick in a period , multiplied by the number of incidences squared. This reflects the fact that one-off issues can skew the results and focuses on issues for managers to review, based upon a score for each team member on a monthly basis.<br><br>However, despite the work performed by the Council in improving performance, stress remains the key reason for sickness absence, particularly within the Adult Social Care directorate. | **Green** |

# Key Indicators of Financial Performance

| Area of focus | Summary observations | RAG-Rating |
|---|---|---|
| Performance against budgets (Revenue Capital & Savings) | The Council achieved an underspend of £6.9m against its revenue budget in 2013/14. This excludes the Dedicated Schools Grant (DSG), but includes £23m support from earmarked and general reserves and £7.9m revenue carried forward from 2012/13.<br><br>This compares with a positive outturn in 2012/13 of £18.1m, 2011/12 of £17.1m, and £4.5m in 2010/11. This demonstrates the presence of robust and effective financial monitoring and control on an ongoing basis.<br><br>For 2013/14 the Council had a savings target of £68.3m, which was set out in its MTFP. At the end of 2013/14 £62.3m was achieved, resulting in a shortfall of £6m. This is mainly due to slippage in Adult Social Care's (ASC's) innovative Family, Friends and Community Support (FFC) strategy (£6m), delays in achieving efficiencies in services for children with disabilities and higher demand for care packages (£1.5m), partly offset by Business Services' planning to bring forward some 2014/15 efficiencies (£1.3m).This compares to 2012/13 where the Council had a savings target of £71.1m and achieved £66.0m leaving a shortfall of £5.1m. During 2013/14 the Council has improved its reporting to Cabinet on the achievement of savings through more explicitly presenting one-off and countervailing savings.<br><br>The MTFP 2014/19 savings are long-term, recurrent savings but directorates are supporting long-term saving shortfalls with one-off savings or expenditure under spends in year. Although this means the in-year budget is met, this increases the pressure to identify efficiencies going forward. Within the monthly budget reporting to Cabinet, non-recurrent savings are explained so that it is clear to members that this saving will have to be achieved going forward as well. For example, in 2013/14 £10.4m Adult Social Care savings were re-categorised as one-off measures and so new schemes to that value will have to be identified in 2014/15 to avoid an on-going budget gap.<br><br>The Council underspent by £6m on its capital budget of £230m in 2013-14, having taken into account £38.4m spent on investment properties. The expenditure on investment assets was not included in the original budget, meaning that the underspend would otherwise have been £44.4m. This is mainly due to the decision to carry forward £32.6m of capital expenditure into 2014/15 as a result of re-profiling. Furthermore, £11.7m of capital expenditure was postponed due to the adverse weather conditions.<br><br>This compares to an overspend of £2.7m in 2012/13 and underspends of £43m in 2011/12 and £31.1m in 2010/11. | Green |

# Key Indicators of Financial Performance

| Area of focus | Summary observations | RAG-Rating |
|---|---|---|
| **Reserves balances** | As at 31 March 2014, the ratio of useable reserves to gross revenue expenditure is 0.15 compared to 0.18 in 2012/13, 0.16 in 2011/12, 0.11 in 2010/11 and 0.07 in 2009/10.<br>This has been caused by the increase in expenditure in relation to Education and Children's Services (in relation to schools transferring to academy status) and the transfer of Public Health responsibilities to the Council. With regards to Education and Children's Services, this is an accounting adjustment rather than cash expenditure.<br>As at 31 March 2014 the Council has net liabilities of £244m (net liabilities of £39m as at 31 March 2013 and net assets of £70m as at 31 March 2012). Net liabilities have increased due to an increase in the long-term net pension liability of £132m (£134m increase in 2012/13) following the triennial revaluation that took place during the year. This net pension liability is a long-term accounting treatment and does not represent a cash impact on the Council in the medium term.<br>We do not consider this to be a significant risk to the Council in the medium term, but mitigating actions should be considered as part of long-term planning. The Council should continue to monitor its reserve balances to ensure financial resilience is maintained. | Green |
| **Schools balances** | In 2013/14 the Council did not spend £6.9m of its allocated Dedicated Schools Grant (DSG) compared with £13.8m in 2012/13, £12.8m in 2011/12, £7.4m in 2010/11 and £2.5m in 2009/10. However, £0.7m of the above has already been committed to support schools budgets in 2014/15. Since 2011/12, the allocation of DSG from central government has decreased by over £58.5m because of the conversion of schools to academies.<br>Overall the Council's Schools balances to DSG allocation has remained relatively stable in recent years and is consistently slightly above average compared to its nearest statistical neighbours.<br>Schools met their annual spending against their Devolved Formula Capital allocations for 2013/14. | Green |

# Strategic Financial Planning

| Area of focus | Summary observations | RAG-Rating |
|---|---|---|
| **Focus of the MTFP** | The Council's revenue budget for 2013/14 was set in February 2013, along with an updated five-year medium term financial plan (MTFP) for the period 2013/14 to 2017/18. This has since been updated in February 2014 for the period 2014/15 to 2018/19 based upon updated financial information included the forecast position for 2013/14.<br><br>As a consequence of the Central Government Spending Reviews the Council identified, as part of the annual update of the MTFP, required reductions in revenue spending of £68.3m in 2013/14 and £73m during 2014/15. The total savings required for the period 2014/15 to 2018/19 are forecast to be £231m.<br><br>Savings are prioritised as in previous years, and were approached strategically by the Corporate Leadership Team with the prioritised aim being improved service provision rather than purely financial savings. At the end of 2013/14 £62.3m of these were achieved leaving a shortfall of £5m, which was met in the short-term through one-off savings, expenditure under spends and the use of previously unused reserves. During 2013/14 the Council improved its approach to identifying savings as a result of recommendations made and has ensured that savings going forward have been identified in detail.<br><br>The Cabinet approved an increased in-year capital budget for 2013/14 of £230m. An in-year underspend of £6m has occurred, when taking into account £38.4m of unbudgeted investment property acquisitions. The Council has carried forward £32.6m of the underspend into 2014/15 through reprofiling.<br><br>The main areas we would expect the Council to consider in setting the 2014/15 budget and updating the MTFP include the update for Council Tax and Business Rate changes, the 2013 Spending Review and changes in service demand, in particular for Schools and Adult Social Care. These areas have all been covered in the update to the 2014/15 to 2018/19 MTFP, as demonstrated by the Council's decision to raise Council Tax and taking into account of the impact of the localisation of business rates.<br><br>Going forward the Council will need to reassess the MTFP in light of the changes enacted by the Care Act 2014 and any implications arising from the Better Care Fund plans for Surrey. These areas are significant to the Council because Adult Social Care represented 25% of spending in 2013/14 and the position is highly fluid. The Council recognises this within its Risk Register as being a high risk area and this is enhanced through the fact that the Council will need to deliver savings in a partnership setting where the Council won't have direct control over arrangements. These are national issues that impact upon all Council's with social care responsibilities and represent areas of risk for the Council, since the budgetary and operational impact on both are significant and currently uncertain.<br><br>However, the Council have sufficient arrangements in place to mitigate against this risk. For example, the MTFP is currently being refreshed in light of the implications known to date, Cabinet have been briefed a number of times during the year on implications and the Department of Health shared the Council's Financial Implication model as National best practice. The Financial Implication model is expected to be adopted by 50 out of 60 Local Authorities, and we have been advised is also being used by ADASS. | Green |

# Strategic Financial Planning

| Area of focus | Summary observations | RAG-Rating |
|---|---|---|
| **Adequacy of planning assumptions** | One of the key areas that the Council is strategically focussing on is innovative income generation in the light of reduced funding. One example of this is the ShiftSurrey scheme whereby the Council has transformed two meeting rooms into specifically innovative spaces for staff to meet and progress innovations. For the medium term the Council has assumed that income will remain relatively static, with increases in Council Tax and other income balancing reductions in central funding. Whilst in the past the comparatively low central government funding has been detrimental to the Council, this now means that the reductions in central funding are having less impact at the Council than at other local government bodies. The Council has begun to consider more innovative income generating schemes within the medium term, such as lending to a Joint Venture Company to facilitate a regeneration scheme in Woking at a rate above the PWLB rate. This represents a good return for the Council and provided Woking Borough Council with the additional funding it required for the redevelopment of its town centre. During 2013/14 the Council has incorporated two Local Authority Trading Companies in order to realise further potential efficiency savings and income generation opportunities.<br><br>The Council has considered inflation in two main formats. Firstly, pay inflation at an average of 1.6% per annum for those employed directly by the Council and 1% per annum for those under national schemes, which is within the control of the Council, and secondly for non-pay at an average of 2.2%, which is in line with current expectations. The Council has made relatively prudent assumptions regarding potential income towards the end of the MTFP from its trading companies. This is an area that the Council will need to update as these develop and expand their operations.<br><br>Prior to the formal approval of the updated MTFP, the Council completes a detailed consultation process to ensure that its strategic and operational priorities reflect the needs of the community. On a regular basis (last completed in 2013/14) this is updated through the use of SIMALTO (Simultaneous Multi-Attribute Level Trade-Off), which presents respondents with a series of criteria and asks them where they would like to see improvements and how much they value these improvements. The main result of this was that taxpayers want more spending on highways and this has been heightened due to the increase in potholes resulting from the bad winter weather. The Council fully adopted a longer-term approach to its road maintenance strategy and in 2012 approved a £100m investment programme to resurface 312 miles of road over five years (known as Project Horizon). | Green |

# Strategic Financial Planning

| Area of focus | Summary observations | RAG-Rating |
| --- | --- | --- |
| **Adequacy of planning assumptions continued** | The Council has been required to significantly amend its capital projections for the 5 year period due to the increasing number of schools places required (4,000 additional places are needed). This has led to a planned increased capital expenditure on schools from £42m to £69m in 2013/14, and for 2014/15 the capital investment in school places has increased from £81m to £105m. Overall, for the period 2014/19, the Council will invest an additional £135m on top of its existing school place capital programme. The Council is currently revisiting its schools' capital projections in light of this because school capital represents one of the biggest long-term financial risks to the Council at present and will continue to do so on an annual basis. Further to this, the Council took a proactive approach to updating its severe weather assumptions in light of the recent flooding.<br><br>The Council had already re-profiled its MTFP for its expectations from early discussions with DEFRA regarding a potential reprofiling of Waste PFI credits and this demonstrates that it takes a prudent approach to its planning assumptions. This was further supported by the actual re-profiling not being significantly different to that in the updated MTFP.<br><br>The Council has already identified schemes to reflect all of the savings in relation to 2014/15 and 2015/16 as well as having identified the majority of schemes up until 2018/19. This is a sector-wide issue and the Council recognises the fact that recurrent savings will become more difficult to identify throughout the medium term but aims to achieve the target through service transformation, particularly in the area of Adult Social Care. Assumptions have also been made based on the draft Better Care Fund for Surrey, but these will require updating following the finalisation and any updates to the plan.<br><br>Overall, whilst the Council has sound processes in place over the planning assumptions in relation to the capital expenditure on schools and the allocation of efficiency savings, the scale of the challenge facing the Council represents a risk over the long-term. However, due to the recognition of this by the Council, the appropriate monitoring processes in place and the level of efficiencies already identified, this is not felt to be a significant risk in the medium term. | **Green** |

# Strategic Financial Planning

| Area of focus | Summary observations | RAG-Rating |
| --- | --- | --- |
| **Scope of the MTFP and Links to Annual Planning** | The Strategic Asset Management, Corporate Workforce Strategic and efficiency plans have been reviewed and are consistent with the MTFP.<br><br>The Strategic Asset Management Plan is a high level document with links to the MTFP, Property Services Public Value Review and the Corporate Strategy.<br><br>Whilst the Corporate Workforce Strategic Plan does not provide the level of detail regarding pay inflation that the MTFP includes, this is in line with expectations, since the main aim of the plan is to create a link between the organisation's strategic goals identified in the corporate plan and the workforce behind meeting those objectives. | **Green** |
| **Review process** | The MTFP is constantly being reviewed in light of new data (e.g. the impact of the winter flooding) and a formal update is completed on a quarterly basis. These updates consider the latest outturn financial information so that the current year position can be reviewed. This represents good practice.<br><br>The Chief Executive and Director of Finance regularly track and monitor progress on the further development and implementation of robust plans for achieving the efficiencies across the whole MTFP period.<br><br>The Council has improved scrutiny of its Local Authority Trading Companies. There are now two Boards in the place - the Investment Advisory Board and Shareholder Board. The Investment Advisory Board is chaired by the Leader and reviews and recommends investments to Cabinet. To date, the Council has developed a property investment portfolio and although the final target in the MTFP has not yet been achieved, income has been increased in this area. Investments to date have been made under powers delegated to the Council under statute, but going forward the Council is considering incorporating a fully owned private property holding company for investment in pure commercial opportunities.<br><br>The Shareholder Board oversees the businesses once they have been incorporated and they are the first point of review within the Council over the performance of the Trading Companies. | **Green** |

# Strategic Financial Planning

| Area of focus | Summary observations | RAG-Rating |
|---|---|---|
| **Responsiveness of the Plan** | The Council has prepared its MTFP on the basis of prudent assumptions, but applies an on-going process of reviewing these assumptions as part of the quarterly updates. The standard approach taken as part of the MTFP planning process is to start at the worst case and amend where appropriate.<br><br>The Council is optimistic about potential income generation but is relatively prudent in its consideration of this within the MTFP. Given it is at an early stage of identifying innovative income streams, this appears an appropriate position to take.<br><br>The Council will need to ensure that its Plan remains responsive, given the scale of the savings still required, and the financial uncertainty that remains within the timeframe of the Plan. The Council has updated the MTFP following the reprofiling of PFI credits from DEFRA and have taken into account the impact of flooding, which amounts to £11m for the estimated cost of the immediate response and temporary repairs associated with this, with £5.3m to be incurred in the current financial year. £10m of the total relates to local highways. In the longer term the estimated cost to repair highways resulting from the flooding and prior bad weather is in the region of £15m, but this is subject to a final assessment being undertaken.<br><br>The costs associated with this more recent flooding are still to be determined, but as the flooding was more severe and widespread, the costs are likely to be higher. However, the Council is able to obtain partial funding to cover revenue costs under the Bellwin scheme above the £1.6m threshold and is estimating approximately £2m funding from the Department for Transport against capital costs.<br><br>The Council is working with District and Borough councils on a scheme to allow a Council Tax discount to residents affected by flooding. The cost of this scheme is estimated to be around £700k to the Council, although central government funding is expected to fund all or part of this. | **Green** |

# Strategic Financial Planning

| Area of focus | Summary observations | RAG-Rating |
|---|---|---|
| **Responsiveness of the Plan continued** | The Council has identified a number of key risks to the MTFP, being the reduction in Central Government funding, delivery of the transformational change and associated efficiencies, delivery of the waste infrastructure, and changes to health commissioning. In an improvement compared to the prior year, the Council has now explicitly considered the increases in Adult Social Care demand and schools places as key risks within the relevant MTFP section. This is more a matter of documentation, as the level of consideration over these areas has not needed to increase.<br><br>The Council has a number of mitigating strategies in place with regards potential risks to the MTFP, with the aim of implementing long-term mitigation first , which include identifying further savings going forward, having comparatively high levels of usable reserves (£278.6m as at 31 March 2014) and being able to roll-forward budgets from prior years. This is supported by the level of contingency reserves within the MTFP. The Council is also able to implement short-term strategies such as restricting investments, borrowing (due to having minimal borrowing in place) and being able to make one-off non-recurrent savings through the budget monitoring process. This was demonstrated in 2013/14 when the Council was able to use their Severe Weather reserve to fund expenditure that resulted from the bad weather in the winter of 2013. | **Green** |

# Financial Governance

| Area of focus | Summary observations | RAG-Rating |
| --- | --- | --- |
| **Understanding of the financial environment** | The Cabinet is informed of financial matters at each meeting through the monthly budget monitoring report.<br><br>The financial regulations, including financial management responsibilities, are contained within the Revenue & Capital Financial Regulation and also disclosed within the MTFP.<br><br>A number of members have financial or business backgrounds, providing sound financial awareness on a broader scale. To assist this, specific financial training is provided as part of the annual training programme. In addition to this, officers update members on financial updates and service management teams discuss any current and potential changes that may affect their financial position. This is completed through updates such as the Political Group Briefings, monthly Council Performance Team meetings, the phased budget approach and Select Committee engagement.<br><br>The Council has a sound understanding of the main risks it faces. In the medium term these mainly relate to erosion of the Council's main sources of funding, delivery of the major change programmes and associated efficiencies, delivery of the waste infrastructure; and changes to health commissioning. These have been discussed in detail through the MTFP planning process including member seminars, which are held frequently to discuss the current budget position on the MTFP and issues going forward. These seminars are jointly led by the Director of Finance and Chief Executive.<br><br>Following the recommendations made in the Financial Management Public Value Review, budget managers are being trained on using the finance system and self-service reporting has been developed. The Council is progressing a cultural shift so that all managers have clear ownership of their financial responsibilities and understand how the wider financial environment impacts on their service. The Council's aim is proactive financial management and excellent financial decision making. | Green |

# Financial Governance

| Area of focus | Summary observations | RAG-Rating |
| --- | --- | --- |
| **Understanding of the financial environment continued** | As with any initiative requiring behavioural change, it will take time to fully embed, and there will be different reactions from the staff concerned: some may see the change as an opportunity whilst others may see the change as a threat or challenge. The Council has managed the ongoing impact of this cultural shift by reviewing the progress made and identifying further actions for improvement going forward . This has been partially achieved to date by implementing a phased roll-out of the dashboard to the directorates. Going forward the Council is aiming considering widening the use of the financial dashboard so that it also includes capital monitoring and budget setting. The roll-out to date of the financial dashboard has had demonstrable improvements but the Council need to ensure the use of this and associated behaviours are fully embedded across all services areas. This will partially be achieved by using the 'early adopters' to promote the dashboard to more reluctant colleagues.<br><br>The Council has made further improvements to financial understanding through making changes to strategic director roles, via network leadership where networks of senior managers and experts are set up for each area. There is also a Continual Improvement Board, which involves a wider group of senior managers discussing corporate issues such as budget monitoring, productivity and service improvement. The Board meets monthly to review data and complete deep-dives into selected services , making recommendations where appropriate. To date recommendations have been made across a number of areas including to the Investment Panel, Productivity and Efficiency Panel and Customer Care Group.<br><br>The Council has complied with the NAO review into DEFRA's management of the Waste PFI scheme and although a reprofiling of PFI credits has been made, there is no evidence to date to suggest that any of the credits will be subject to clawback. This means the Council are now the only Local Authority with a Waste PFI scheme that is being funded centrally at the originally agreed amount. | **Green** |

# Financial Governance

| Area of focus | Summary observations | RAG-Rating |
|---|---|---|
| **Executive & Member Engagement** | The Strategic Director for Business Services is part of the Corporate Leadership Team. In addition to this, the Chief Executive meets either formally or informally with the Director of Finance on almost a weekly basis, who now reports directly to him.<br><br>From our attendance at Audit and Governance Committee (AGC) meetings and minute reviews completed, members and officers robustly challenge and lead effectively.<br><br>There remains an appropriate level of senior manager and member level engagement in the financial management process. Stakeholder and resident understanding of the Council's financial position and budgetary pressures is facilitated by the provision of an interactive version of the Medium Term Financial Plan on the Council's website.<br><br>One area of particular good practice is the publication of an attractive and easy to read Annual Report as soon as the Council's outturn position is known. For the first time in 2013/14 the Annual report will include summary audited financial statements.<br><br>As part of its budget setting process for 2014/15 the Council conducted a public engagement campaign in order to understand residents' service priorities and views on spending. In addition to this, the Chief Executive and Director of Finance regularly track and monitor progress on the further development and implementation of robust plans for achieving the efficiencies across the whole MTFP period.<br><br>During 2013/14 the Council initiated its new financial dashboard. The dashboard and conjoined forecasting tool is a revenue budget monitoring and forecasting tool. The tool is automated so that budget holders are automatically linked to their span of control and can view data in either graphical or tabular formats. The dashboard allows for live budget monitoring, which is updated overnight. This has increased the accessibility of budget monitoring to both the Executive and members. | **Green** |

# Financial Governance

| Area of focus | Summary observations | RAG-Rating |
|---|---|---|
| **Overview for controls over key cost categories** | As for most County Councils, the key costs for the Council relate to staffing and service provision (43% and 57% in 2013/14 compared to 44% and 42% in 2012/13 ). These items are specifically considered within the MTFP and since budget holders are part of the budget setting process they are aware of the need to control key costs. The remaining 12% relates to central overhead costs such as premises and supplies and services.<br><br>The Council tries to take a multi-pronged approach to controlling its key costs and this is demonstrated within Adult Social care where the most significant element of the Directorate's savings plans is Family, Friends and Community. It is a strategy designed to provide more personalised community support options to individuals requiring care, while reducing direct costs to the Council. This has been a key driver in the recent Rapid Improvement Events on the social care and financial assessment processes.<br><br>Another example is where the Council is working in partnership with other councils in the South East (such as with East Sussex regarding the provision of transactional support and IT hosting services ) to identify greater efficiencies across the wider SE7 area.<br><br>The Council incorporated two new trading companies in 2013/14 (SE Business Services and Surrey Choices Ltd), with the aim to improve cost efficiencies and generate income. | Green |

# Financial Governance

| Area of focus | Summary observations | RAG-Rating |
|---|---|---|
| **Budget Reporting (Revenue & Capital)** | Budget monitoring reports are presented to Cabinet monthly with year to date and forecast outturn positions at a service level. Information is produced within three weeks of the month end.<br>The analysis of each service's' performance begins with a summary of the reasons for variance of the year-end position.<br>This provides sufficient but not excessive information to enable Cabinet to make effective decisions. This is supported by the level of narrative provided alongside the financial information to aid members who may not be from a financial background.<br><br>The Council implemented a new financial dashboard in August 2013 that allow officers and members to review the budget position in real time and drill-down to the level of detail they require quickly and easily. As per the February 2014 staff survey 70% of budget holders found the dashboard intuitive and felt that it had improved the financial management of their span of control. However, this 70% is not reflected in the number of budget holders using the tools and the Council is currently reviewing the usage of the dashboard to further develop the tool.<br><br>One key area in which demonstrable improvement has been made is in relation to the time spent by directorate finance staff on data manipulation (i.e. taking information from SAP and presenting it). Instead, time is being charged to insightful conversations and challenge, as demonstrated by staff timesheet entries. This means the directorate finance staff are being used in a more effective manner. | Green |

# Financial Governance

| Area of focus | Summary observations | RAG-Rating |
|---|---|---|
| **Adequacy of other Committee Reporting** | Issues affecting the current and forecast outturn position are described at both a summary and service level in relation to revenue budgets. Although Cabinet does not consider a detailed cash flow position on a monthly basis, the revenue impact and forecast outturn is commentated upon within the monthly budget monitoring report. Additionally, quarterly financial statements are produced that include the year-to-date balance sheet, which covers the cash flow position.<br><br>The efficiencies position is reported to Cabinet on a monthly basis with full consideration of savings achieved, savings likely to be achieved and savings that are more difficult to achieve. A summary position for each service is also provided.<br><br>The key financial risks to the outturn position for each service budget are described at a suitable level to the Cabinet. The monthly report also considers the impact of any financial risks on the risk contingency budget that the Council applying as part of its multi-year budgeting approach.<br><br>Reasons are given for variances from the budgeted position, such as slippage against project progress and the realisation of unexpected efficiencies.<br><br>Issues affecting the current and forecast outturn position are described at both a summary and service level in relation to capital budgets.<br><br>Issues affecting the current and forecast outturn position are described at both a summary and service level in relation to revenue budgets, which are produced within three weeks of the month-end. From our reviews of Cabinet and Overview & Scrutiny Select Committee minutes the information provided to members (in conjunction with verbal updates where necessary) is complete, accurate and reliable. The Council does not report the cash-flow forecast beyond year-end within the budget monitoring reports, but this is compensated through the Treasury Management reporting and quarterly review of the MTFP position.<br><br>Members regularly challenge senior officers and ensure progress has been made against recommendations, thus demonstrating that they take suitable action on the basis of information received. This is further demonstrated through the consideration of management actions that have taken place as a result of the prior month budget report. Basic accountancy training regarding balance sheet-revenue splits for members was identified through the production of the 2013/18 MTFP and as a result of this officers provided training in this area as part of the provision of the 2012/13 financial statements to members. During 2013/14 this was topped up by member training on the financial statements so that updates to the technical accounting requirements are understood. | **Green** |

# Financial Control

| Area of focus | Summary observations | RAG-Rating |
| --- | --- | --- |
| **Budget setting & monitoring – revenue & capital** | The key budget setting principles underpinning the development of service budgets are that budgets are based upon predicted activity levels rather than incremental budgeting, are owned by the services, reflect projected expenditure and directly managed income and take account of agreed savings plans. Historical budget issues are addressed through the budget setting process. The Council no longer completes standalone annual budgets but five-year budgets from which annual budgets are set and this means the in-year budgets are more reliable. Further to this, by using five-year budgets, virements between years can be more readily identified (i.e. capital projects spanning a number of years), meaning greater efficiency and more achievable in-year budgets. Budget holders propose a revenue budget that is sustainable for the directorate and the Council. The proposed budgets are collated and presented to Directorate Leadership Team meetings. Strategic Directors, including the Director of Finance, are responsible for producing a budget that is within the provided cash limit. The Leader presents the budgets to Cabinet in January and Full County Council in February each year, which forms the main part of the Council's MTFP and the Council ensures that the MTFP meets the overall Corporate Strategy.<br><br>As part of the budget setting process the Council considers a number of scenarios and applies the most suitable scenario at the time. This is then updated once further information is obtained (e.g. the update in relation to credit receipts for the Waste PFI scheme).<br><br>The Council completes a number of draft budgets throughout the process of creating the final budget, including budgets following additional face to face engagement with the business and voluntary sector, communities, and trade unions, all member briefings at each phase and resident engagement. Once the budget is set, the actual spend is compared to the budget with explanations for variances to budget provided by each service on a monthly basis, with a quarterly hard close process in place. Once live, the budget is only amended where new external information is received, which is considered at each quarterly update.<br><br>The Council has a strategic asset management plan that considers the balance between service provision and the impact of maintenance on revenue and capital budgets. As part of the strategy Property Services was restructured with a new management team in place and an under-pinning structure that covers the property lifecycle as 'one team'. The purpose of the restructure is to ensure that assets are managed as effectively as possible, which has been furthered through the introduction of a new Property Asset Management System. An Internal Audit review of this system did not identify any significant weaknesses. | **Amber** |

# Financial Control

| Area of focus | Summary observations | RAG-Rating |
| --- | --- | --- |
| **Budget setting & monitoring – revenue & capital continued** | Due to the current economic climate, the Council is prudent with regards to cash management and investment and only invests or borrows where it is the most financially effective strategy.<br><br>The Council underspent by £6m on its capital budget of £230m in 2013/14, having taken into account £38.4m spent on investment properties. The expenditure on investment assets was not included in the original budget, meaning that the underspend would otherwise have been £44.4m. This is mainly due to the decision to carry forward £32.6m of capital expenditure into 2014/15 as a result of re-profiling. Furthermore, £11.7m of capital expenditure was postponed due to the adverse weather conditions. This compares to an overspend of £2.7m in 2012/13 and underspends of £43m in 2011/12 and £31.1m in 2010/11.<br><br>The amber rating for this area is as a result of the issues resulting from the capital programme position. Whilst the adverse weather conditions could not be predicted, the Council has been required to significantly re-profile its capital expenditure since 2010/11 with the result that capital expenditure is re-profiled to later in the MTFP. In addition to this, higher than planned capital expenditure in March 2014 resulted in the Council choosing to borrow £24m to fund a short-term cash shortfall. This precautionary short-term borrowing was at an advantageous interest rate and there was no net cost to the council. This may be an area of increased risk because as the economy improves the capital programme may become more challenging to deliver given supply and demand issues in the construction industry. The council needs to ensure: improved profiling of expenditure for budget setting, consider the effectiveness of project management arrangements, and that cashflow impacts are understood and can be planned for. | **Amber** |

# Financial Control

| Area of focus | Summary observations | RAG-Rating |
|---|---|---|
| **Savings plans setting & monitoring** | The Council had previously identified the annual savings to be made through the implementation of the MTFP. However, this is updated as a result of areas within its control (e.g. choosing to increase Council Tax) and those outside its control (e.g. increasingly reduced Central Government funding). In conjunction with directorates, this is then split between the directorates, with the first assumption being that the split should be proportionate to their annual budgets. Each directorate is required to identify the savings to be made and RAG rate this in reporting to Cabinet. These RAG ratings are split between achievability (i.e. how likely it is that the directorate can meet that particular saving) and political acceptability.<br><br>As part of the consideration of the directorate performance against the savings plan, the directorates are required to apply prudency in reporting a "worst-case" scenario. Further to this, each directorate is required to identify savings schemes with a total value that is higher than the target to allow for some slippage across the MTFP period. Furthermore, the Council has purposely increased its reserve balances in recent years (and intends to going forward where possible) in order to support future savings required.<br><br>In 2013/14, the Council achieved recurrent savings of £62.3m against a target of £68.3m. This compares to 2012/13 when the Council achieved recurrent savings of £66m against a target of £71m, although countervailing savings ensured that an overall revenue underspend was achieved in-year. Within the monthly budget reporting to Cabinet, non-recurrent savings are now clearly explained so that it is clear to members that this saving will have to be achieved going forward as well. For example, in 2013/14 £10.4m Adult Social Care savings were re-categorised as one-off measures and so new schemes to that value will have to be identified in 2014/15 to avoid an on-going budget gap.<br><br>The Cabinet is updated on a monthly basis regarding the progress of directorates against the savings plan. Each directorate is required to explain the reasons behind any slippage or failure to meet the savings plan and to identify compensating in-year savings. These reports include both the year-to-date and outturn figures. The Council has demonstrated that is has sound project management through proactive delivery management through achieving in-year underspends for a number of years despite not meeting its savings targets. | Green |

# Financial Control

| Area of focus | Summary observations | RAG-Rating |
| --- | --- | --- |
| **Key financial accounting systems** | Internal Audit have reviewed all of the key financial systems in 2013-14 and determined that there are some areas that need "some improvement". We do not consider that these areas represent material weaknesses.<br><br>The Council's main accounting system is SAP, which is a well known accounting package that is appropriate to the business. The Council also uses a number of other systems such as SWIFT, Abacus and Minerva, which are specifically designed for their uses and thus are appropriate. The Council may need to revisit this as their service provision alters over time. SWIFT, which is used by Adult Social Care, has multiple interfaces with the General Ledger on SAP, such as commitments, invoice payments, financial assessments, and accruals and pre-payments. Key interfaces are monitored to identify system failures, should they occur.<br><br>The accounting system (SAP) is both accurate and reliable in relation to the coding of activity as demonstrated through the main account walkthroughs completed and the review of the management accounts review process. The budget holder ownership of budgets is particularly strong in the Council since they are held to account for minor variances to the plan. Where issues arise in relation to miscoding the Council are aware of the importance of both identifying and correcting this quickly.<br><br>The Property systems (mainly PAMS) are now linked to SAP. Maintenance was the first area to be linked for backlog reviews and reports were generated for issue identification. Clarity and speed of project monitoring has also increased, which significantly helped management of flood repairs. | **Green** |

# Financial Control

| Area of focus | Summary observations | RAG-Rating |
| --- | --- | --- |
| Finance department resourcing | The Council has a central finance team that provides additional support to each service, meaning that key positions within finance can be covered by other finance team members. The Council employs over 100 staff within financial management roles. The Council has historically been particularly reliant on the Finance Manager (Assets and Accounting) and Capital Accountant, in compiling the financial statements. However, during 2013/14 the central finance team has been strengthened to provide additional resiliency.<br><br>The Council performed a Public Value Review on financial management in 2011. A recommendation was made in relation to realigning the structure of the finance service with the Finance Vision and the process improvements identified as part of the Public Value Review. As a result of this, the finance team now has a total of 103 staff (97 in 2012/13), of which 47 are CCAB qualified accountants, 18 part-qualified and 13 are members of AAT. Those without formal finance qualifications hold the qualifications in their specialism.<br><br>The Council restructured the finance service following the Public Value Review, including shared services, in order to meet the recommendation. This has both saved money and improved the effectiveness of the finance team although minor issues have arisen as a result of changes made that the Council is in the process of addressing. This change in status for finance staff has been commented upon favourably by services, who state they receive the appropriate level of support from finance.<br><br>During our fieldwork the Director of Finance, who now reports directly to the Chief Executive, was identified by a number of key stakeholders as providing effective leadership of the finance function, and having constructive relationships with the Corporate Leadership Team and Cabinet colleagues. Stakeholders interviewed during our fieldwork also commented positively on the service that the finance function was providing. | Green |

# Financial Control

| Area of focus | Summary observations | RAG-Rating |
|---|---|---|
| **Adequacy of Internal audit arrangements** | The Internal Audit annual plan has been reviewed. On review of this plan, the areas to be covered across the financial year are sufficient for the organisation. The plan is risk-based, but subject to the consideration of materiality and service need. Overall the Internal Audit function performs well and receives positive feedback from Management. The Internal Audit service is comparatively compliance-focussed compared to the expectations of some service departments. However, the function has demonstrated that it has provided advisory services where appropriate in areas such as the Public Value Reviews, developing staff analysis tools and working on duplicate payments with the Accounts Payable team prior to external consultants carrying out an Accounts Payable review and the introduction of an add-on to SAP.<br><br>The Audit and Governance Committee monitor outstanding recommendations at each meeting. A number of recommendations are outstanding but progress against each of these is demonstrated on a bi-annual basis. In addition to this, there is now a process in place whereby any audit that includes a High Priority Audit Recommendation should be considered for inclusion in the relevant Select Committee forward plan. Furthermore, the HoIA attends the Performance and Finance Sub-group of the Council Overview and Scrutiny Committee every two months to report on completed audits. At these meetings the HoIA is required to report where any High Priority recommendations have missed their agreed implementation date.<br><br>New Internal Audit standards were published with effect from April 2013. The Council received an independent review for compliance with the new Public Sector Standards on Internal Audit Services during the year, for which they were found to be partially compliant with minor improvements required only. The Internal Audit service had an action plan in place, which they have now met to ensure full compliance has been met during 2013/14. | **Green** |
| **External audit conclusions** | Six recommendations were made in 2012/13 in relation to the financial statements. All of these have been progressed during 2013/14 and the majority of these have been fully resolved. Nine recommendations were made in 2012/13 in relation to financial resilience. All of these have been progressed during 2013/14 and the majority resolved. Where recommendations have not been fully resolved, this is only because they are unresolvable and the Council have ensured that proper improvement arrangements are in place in these areas.<br><br>Recommendations are incorporated into the recommendations tracker that is reviewed at every Audit and Governance Committee meeting. They were then addressed by management via a report to members in March 2014. | **Green** |

# Financial Control

| Area of focus | Summary observations | RAG-Rating |
|---|---|---|
| Assurance framework/risk management processes | The risk management process is an iterative process of identification and assessment, monitoring and review, with Directors being responsible for reviewing and reporting on any perceived risks in their areas of responsibility.  There are various committees and accountable officers that collate risk management reports and implement mitigation plans.  This is completed through all directorates having a standing item on their monthly management meetings to review and update their risk register.  These are then linked to the Leadership Risk Register.<br><br>The efficacy of the risk management process is monitored through half-yearly risk management reports to the AGC.  The AGC gains assurance on the monitoring and review of risks by the register identifying when specific areas have been included on Select Committee agendas and also dates of future Select Committee reviews.<br><br>The Cabinet gains assurance over the risk management process through two main routes.  Firstly, through the review completed by the AGC at each meeting  and secondly through the IA review of the risk management process on an annual basis.  The leadership risk register is reviewed by the Strategic Risk Forum (formally the Risk and Resilience Steering Group) and by the Corporate Leadership Team.  The Council has strengthened its risk management approach during the year with the Director of Finance chairing the Strategic Risk Forum.   As a result of this, the Risk Register has also improved and this is demonstrated through the approach applied by the Council to the Eco Park whereby the Council was able  to respond quickly to implications of various risks (e.g. when the main supplier went into administration.  Internal Audit have identified some areas of improvement in relation to risk management and the Council have identified actions to make this improvements.<br><br>The basis for risk identification is the objectives and priorities within the Corporate Strategy and relevant directorate strategies and service plans. Each risk is allocated under the responsibility of a specific senior officer and member.  Each risk is also aligned for monitoring purposes to a specific committee<br><br>The Leadership Risk Register splits the risk assessment between inherent and residual risk scores and key controls that mitigate against the inherent risk are identified for each risk.  Each risk within the Leadership Risk Register is linked to the relevant service-level risk number and is rated either High, Medium or Low risk.<br><br>Although the Leadership Risk Register does not contain actions required to mitigate against the risks identified, these are included within the individual directorate risk registers and are discussed as part of the review of the Leadership Risk Register.  On overall review of the size and number of the risks within the  Leadership Risk Register, it appears reasonable for the Cabinet to maintain an adequate review of the main risks to the Council considering the level of detail included on each risk. | Green |

# Prioritising Resources

| Area of focus | Summary observations | RAG-Rating |
| --- | --- | --- |
| **Leadership and challenge in prioritising resources** | Strategy development has been led by the Cabinet. Significant work is on-going in relation to developing the MTFP and savings programme in light of the recent changes made by Central Government. The Council has a sound understanding of its main risks and in the medium-term these mainly relate to erosion of the Council's main sources of funding, delivery of the major change programmes and associated efficiencies; delivery of the waste infrastructure; and changes to health commissioning. These have been discussed in detail through the MTFP planning process including Member seminars, which are held frequently to discuss the current budget position on MTFP and issues going forward. These seminars are jointly led by the Leader and Chief Executive. The Cabinet is informed of financial matters at each meeting through the monthly budget monitoring report. A number of members have financial or business backgrounds, providing sound financial awareness on a broader scale.<br><br>From our attendance at the Audit and Governance Committee meetings we have witnessed the robust challenge by Committee members. Required actions and recommendations are monitored and officers are called to account if improvements are not implemented by the due date.<br><br>The Director of Finance has a direct reporting line to the Chief Executive and has regular meetings with him. | **Green** |

# Prioritising Resources

| Area of focus | Summary observations | RAG-Rating |
|---|---|---|
| **Better Care Fund** | The Surrey-Wide Better Care Fund Plan was reviewed and signed off by Surrey Health and Wellbeing Board on 3 April 2014, prior to submission to NHS England. The amount transferred for Surrey is £14m, which s is reflected in Surrey County Council's MTFP. Surrey County Council will hold the pooled budget for 2014/15.<br><br>The benefit to sustaining social care in 2015/16 is expected to be £25 million. However, this figure has not been completely signed up to by the CCGs and final funding allocations have yet to be agreed. The aim is to continue to provide universal, preventative and non-statutory services without having to adjust eligibility criteria.<br><br>Governance arrangements are as follows:<br>a) The Local Joint Commissioning Groups will be responsible for all Better Care Fund investment decisions;<br>b) The Local Joint Commissioning Groups will be responsible for overseeing the operational delivery of the schemes set out in their local joint work programme;<br>c) The Surrey Better Care Fund Board will provide strategic leadership and hold the Local Joint Commissioning Groups to account for how they invest the Fund and the progress and outcomes they deliver;<br>d) Surrey's Health and Wellbeing Board will continue to set the overarching strategy. | **Green** |

# Prioritising Resources

| Area of focus | Summary observations | RAG-Rating |
|---|---|---|
| **Consultation with key stakeholders** | Service redesign should be agreed with the public, but also other stakeholders such as the CCG and community providers. Agreeing changes with CCG and community providers is very important and this has been demonstrated through the on-going contract negotiations in areas such as the Surrey Better Care Fund. The Council has ensured that robust arrangements are put in place for risk management in these areas.<br><br>Staff engagement has been key to the achievement in delivering efficiency savings, for example through increased involvement at a service level. Strong liaison with service leads and teams has been key to this.<br><br>Partnership working is critical to the Council given the nature of its service delivery. The Council works closely with the NHS commissioners and providers, the local District and Borough Councils and the SE7 are as well as private sector partners. Although these relationships are being further developed in light of the structural changes imposed by Central Government, the Council had already started to strengthen these ties through their consideration of improving service delivery. One example of this is the consideration of private sector partnerships in relation to care home provision and another is the Surrey Local Enterprise Partnership which aims to maintain and grow the local economy. | Green |
| **Basis for decision making** | Based on the review of minutes and discussions with officers and members there is no indication that decision-making is not based on appropriate or adequate information.<br><br>The need to meet the efficiency savings target has meant that alternative service delivery options have been considered. However, the Council has been keen to not always adopted the lowest cost option as it is dependent on the needs of service users first. One example of this is that the Council uses its PVR programme to concentrate on improving service delivery rather than pure financial savings since it sees financial savings as a result of improving service.<br><br>The Council has an understanding of its costs (including whole life transactions and unit costs), what influences these and how they are linked to performance. Costs are taken into account while the Council is making decisions and are reviewed as part of the balanced scorecard. The Council show a good awareness of long term options for reductions, for instance in its decision not to take the Council Tax Freeze grant over the past three years. | Green |

# Prioritising Resources

| Area of focus | Summary observations | RAG-Rating |
|---|---|---|
| **Understanding impact and outcome of decisions** | For every efficiency saving plan identified, as part of the implementation process a Quality Impact Assessment is completed by the service manager to ensure that the service provided will not be adversely affected. Where the quality of the service may be affected by the savings scheme, both mitigating actions and monitoring plans are in place to reduce this impact.<br><br>Where adverse quality impacts are identified during the process of identifying the efficiency saving, specific monitoring processes are put in place, in addition to mitigating actions being identified, in order to ensure that performance does not decline.<br><br>The Cabinet is updated on a monthly basis regarding the progress of directorates against the savings plan. This helps them to see how savings in one department may affect another adversely. Each directorate is required to explain the reasons behind any slippage or failure to meet the savings plan and to identify compensating in-year savings. These reports include both the year-to-date and outturn figures. The Council has demonstrated that is has sound project management through proactive delivery management through achieving in-year underspends for a number of years despite not meeting its savings targets. During 2013/14 the Council has improved its reporting to Cabinet on the achievement of savings through more explicitly presenting one-off and countervailing savings. | **Green** |

# Improving Efficiency & Productivity

| Area of focus | Summary observations | RAG-Rating |
|---|---|---|
| **Understanding costs** | Cabinet receives monthly budget report on costs, demonstrating a high degree of understanding of costs at a service level within each directorate. The reports show a detailed breakdown each month detailing the reasons for a variation compared to budget and the achievement of efficiency savings. This level of understanding is sufficient for the monthly Cabinet meetings due to the more detailed availability within the financial dashboard, which allows for officers and members to view data in either graphical or tabular formats for:<br><br>a) the overall financial position (with petrol gauge RAG rating for income, expenditure and total). This can be viewed by month, YTD or forecast.<br>b) a trend analysis showing actual and forecast against current or original budgets or prior year actuals<br>c) a breakdown of spend/income by directorate or type (i.e. employees, stationery etc.). The drilldown option allows for detailed transactions to be identified down to an individual transaction<br><br>The Council has been involved in the meetings for the preparation for both the Surrey Better Care Fund Plan and no issues have been identified that impact upon the Council's understanding of its costs.<br><br>The Council have considered the Audit Commission Value for Money indicators, which notes that:<br><br>a) The Council receives a comparatively low level of funding for its population<br>b) Net expenditure per population is lower than other local Counties (Kent, Hampshire, Essex)<br>c) Spend on cultural services and housing services are comparatively high | Green |
| **Effectiveness of key services** | With regards finance, the Cabinet reviews the effectiveness of each service in detail at every meeting, where it also reviews the strategic impact of service decisions and performance.<br><br>The Council has not been the subject of any adverse OFSTED inspections during the year and DEFRA have continued to fund the Waste PFI scheme following an NAO review into DEFRA's procedures. Surrey County Council's scheme is now the only Waste PFI scheme being funding by DEFRA. | Green |

# Improving Efficiency & Productivity

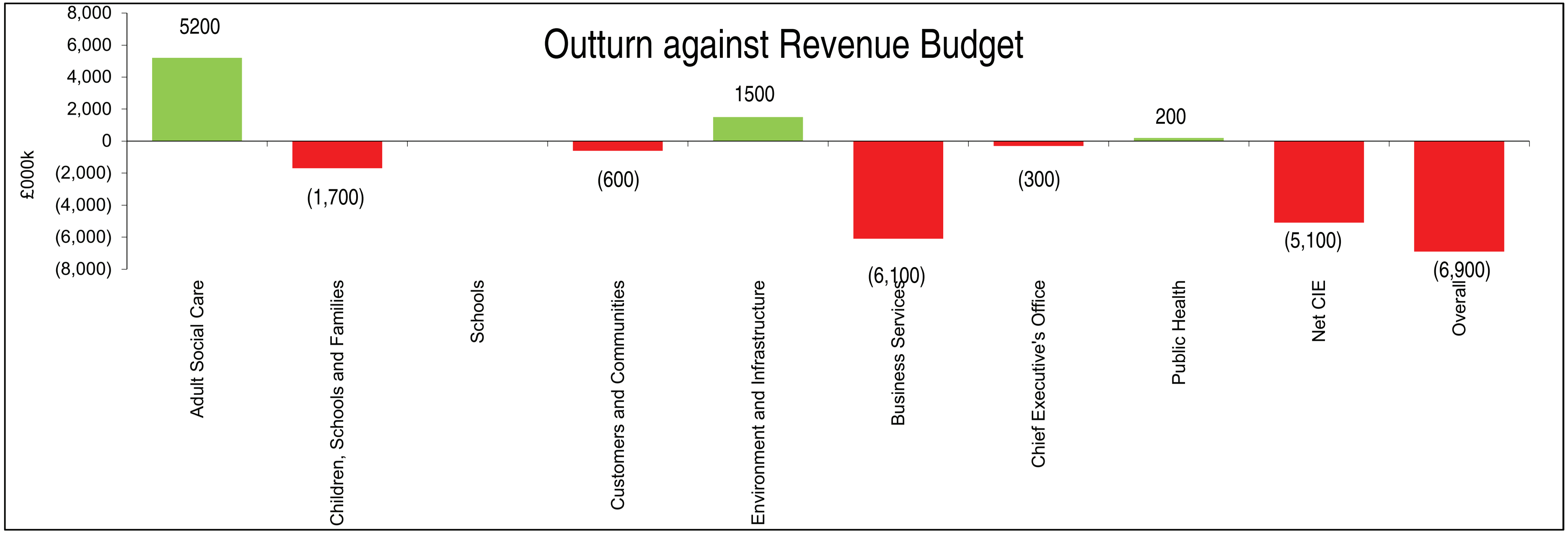
| Area of focus | Summary observations | RAG-Rating |
|---|---|---|
| IT Systems and Data quality | The Council continues to improve its data both internally and with partners.  Key changes include supporting members' awareness of data and its usage, refreshing the data quality strategy and working with partners on the robustness of data.  New technology has been piloted in some areas such as the financial dashboard to aid quicker decision making.  There is a data quality corporate action plan and each directorate also has an action plan.<br><br>No areas of significant weakness were identified in 2013-14.  The only area of significant weakness identified in the prior year in relation to data quality is Adult Social Care direct payments.  This was an area of significant weakness in 2012-13,  whereby the service has developed management reports to assist in the management of workload as a result of the Internal Audit review.  An Internal Audit follow-up review in 2013-14 identified that improvements had been made but need time to be fully embedded.<br><br>Information Governance is identified on the Leadership risk register as a High Risk and a recent audit of Information Governance suggests that significant further work is required to raise awareness of the risks across the organisation.  This is due to a breach in prior years and although no new instances have occurred and the Council has identified mitigating actions through the action plan, these are being introduced at different points during 2014/15.  Thus, this area remains a high risk to the Council, particularly with the impact of any breaches potentially being significant to its reputation. | Green |
| Delivery of QIPP and service re-design | The Overview and Scrutiny Committee monitors performance and the Cabinet monitors achievement of efficiencies and savings.  Savings are prioritised as in previous years, and were approached strategically by the Corporate Leadership Team with the prioritised aim being improved service provision rather than purely financial savings.<br><br>In 2013/14 £62.3m of efficiency savings were achieved against a target of £68.3m.  The shortfall was met through one-off underspends during the year and this has been clearly reported both in internal and external reports.<br><br>The Council has incorporated  two new trading companies during the year, which are aimed at increasing income generation, improving service provision and achieving efficiency savings.  The risk remains that shared service arrangements and the trading companies do not deliver these planned improvements to service and financial return, but the Council has appropriate governance and risk management arrangements in place to mitigate against this. | Green |

# Management of Natural Resources

| Area of focus | Summary observations | RAG-Rating |
|---|---|---|
| Management of Natural Resources | The development of a waste strategy is included in the Leadership Risk Register. The Council recognises that failure to deliver key waste targets (including key waste infrastructure, such as the Eco Park) will lead to increased cost to residents and tax payers and impacts on the environment. To address this risk it has increased resources in this area and project planning is monitored by the Waste Board. The Council is undertaking further work with the Districts and Boroughs to review waste plans to achieve the targeted increase in recycling.<br><br>One of the Council's strategic objectives in its Corporate Strategy is stewardship. The strategy states: 'When striving to fulfil our most pressing duties it is critical we use resources responsibly and safeguard them for future generations. We will focus on conserving Surrey's environment and will reduce our dependency on carbon and other scarce resources. We will maintain rigorous financial and risk management so we have a sound basis for achieving current priorities and investing for future needs.' Progress against targets is monitored in the quarterly business update reports. In 2012/13 the Environment and Infrastructure directorate successfully bid for and secured more than Surrey's anticipated per capita share of the Local Sustainable Transport Fund (LSTF). A key performance indicator has been developed to enable the monitoring of renewable energy generated from renewable energy systems installed on the Council's estate.<br><br>The Council has a webpage dedicated to energy efficiency and energy sustainability. | Green |

# Appendix 1 – Benchmarking

## Performance Against 2013-14 Revenue Budget: Major Variances from Working Budget



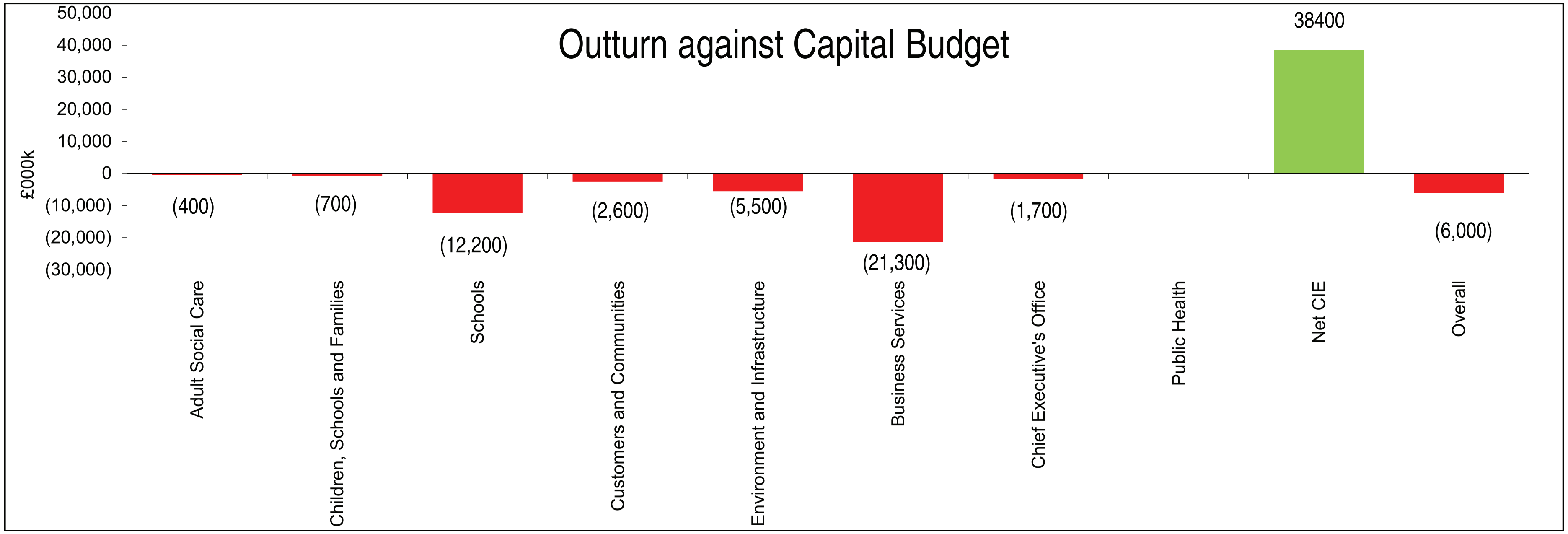

**Findings**

The overall revenue outturn position is an underspend of £6.9m excluding roll forwards. The directorate with the best performance is Business Services, with an underspend of £6.1m.

The only directorates with overspends are Adult Social Care and Environment and Infrastructure, which were £5.2m and £1.5m respectively.

# Appendix 1 – Benchmarking

## Performance Against 2013-14 Capital Budget: Major Variances from Working Budget

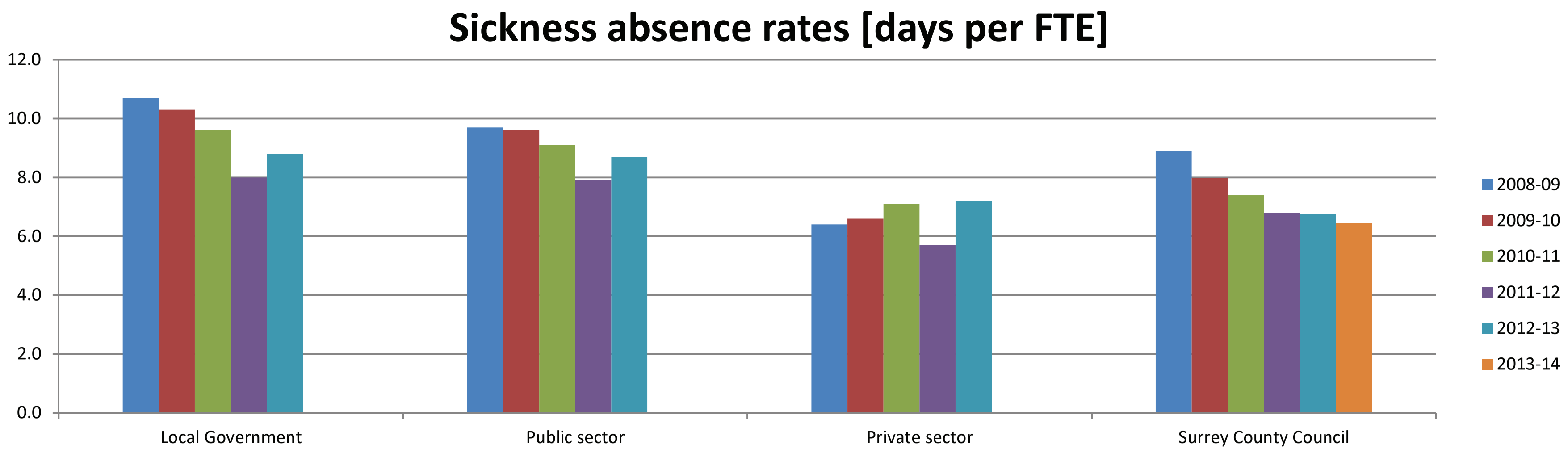



**Findings**

The £38.4m overspend in relation to the Net CIE budget resulted from investment properties bought during the year.

# Appendix 1 – Benchmarking

## Sickness Absence levels




## Findings

The Council has not only consistently reduced the average sickness rate across the five year period (8.9 to 6.44 FTEs), but has also ensured the rate is below both the public sector and local government averages. The rate is now in line with the 2012/13 Private Sector average as well.





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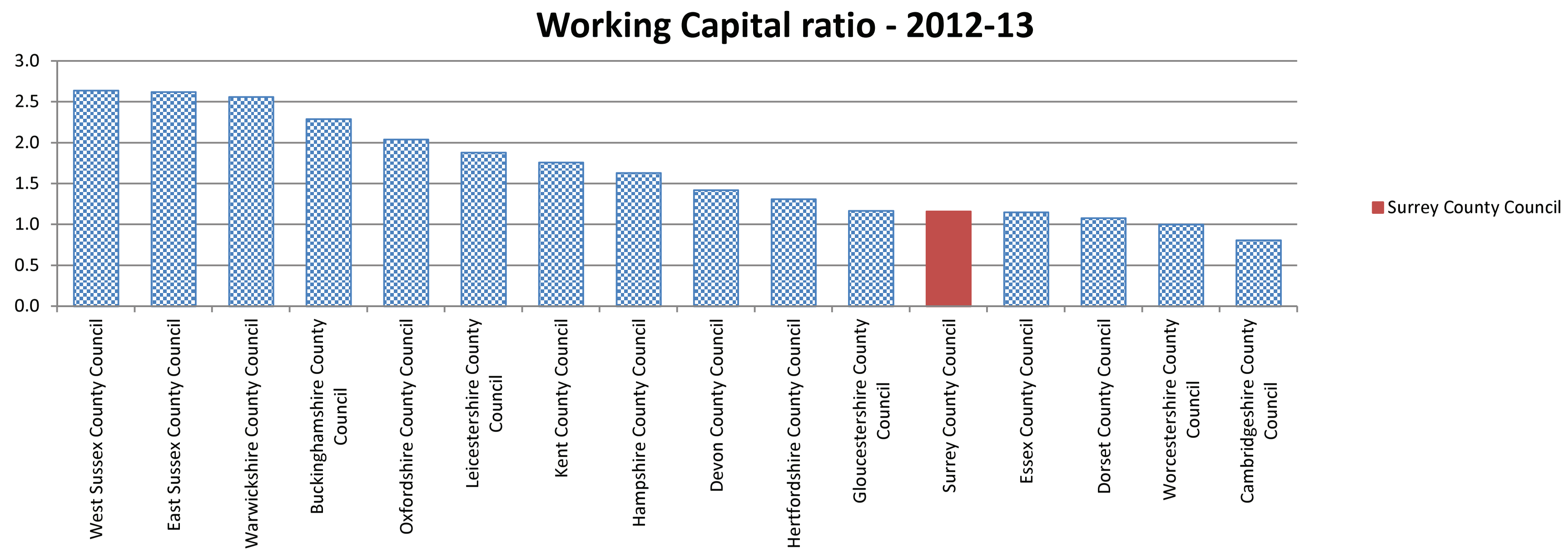
# Appendix 1 – Benchmarking

## Working Capital Ratio 2012-13

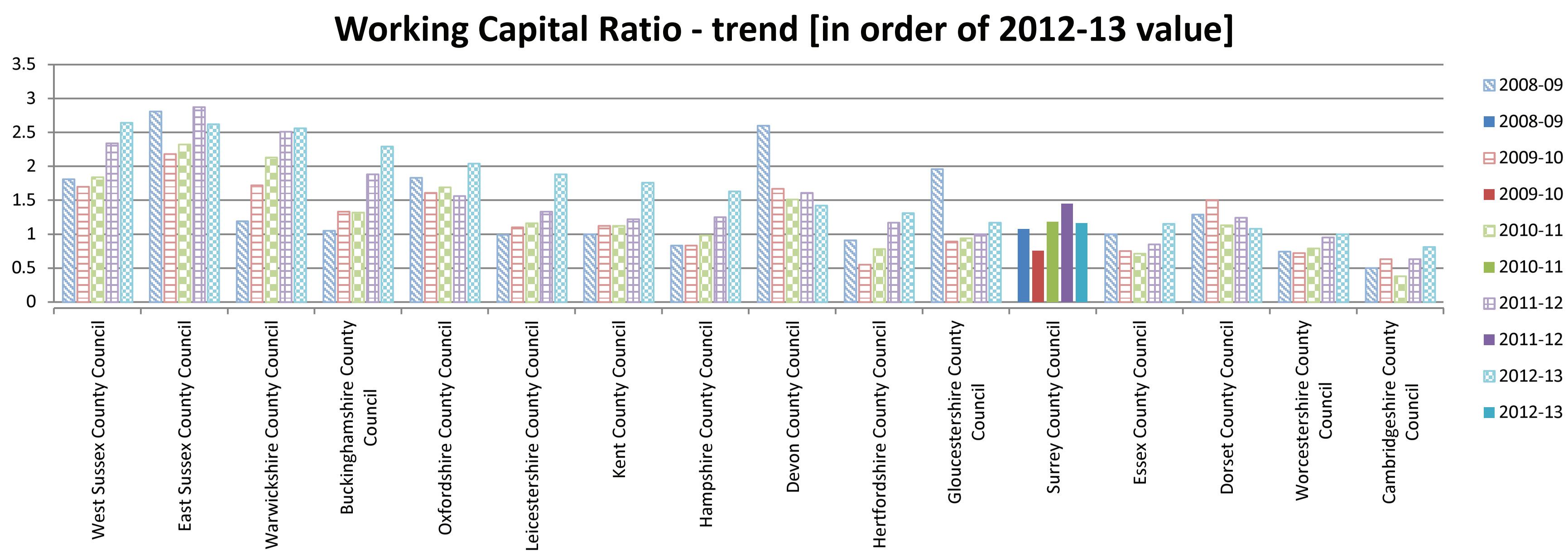



**Findings**

The Council had a working capital below average in 2012/13. As at 31 March 2014, the Council's working capital ratio is 0.75. This reduction is mainly due to the reduction in cash and cash equivalents and borrowing of £24m at year-end to manage a short-term cash shortfall. The short-fall was a result of higher than expected capital expenditure in March.

# Appendix 1 – Benchmarking

## Working Capital Ratio 2012-13 - trend

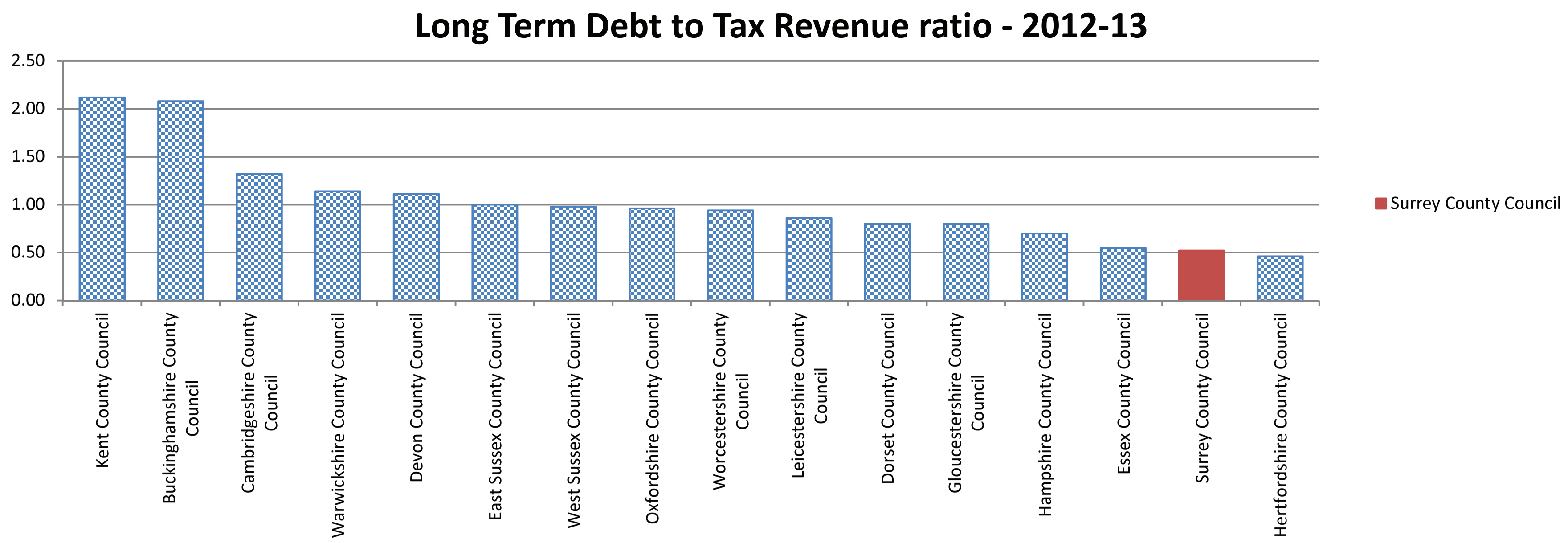



### Findings

There is a mixed picture in terms of the movement in working capital ratios across the nearest neighbours. Some Councils have decreased working ratios whilst others are increasing. However, were it not for the £24m of short-term borrowing over year-end, the ratio would have increased in 2013/14.

# Appendix 1 – Benchmarking

## Long-term debt to Tax revenue 2012-13

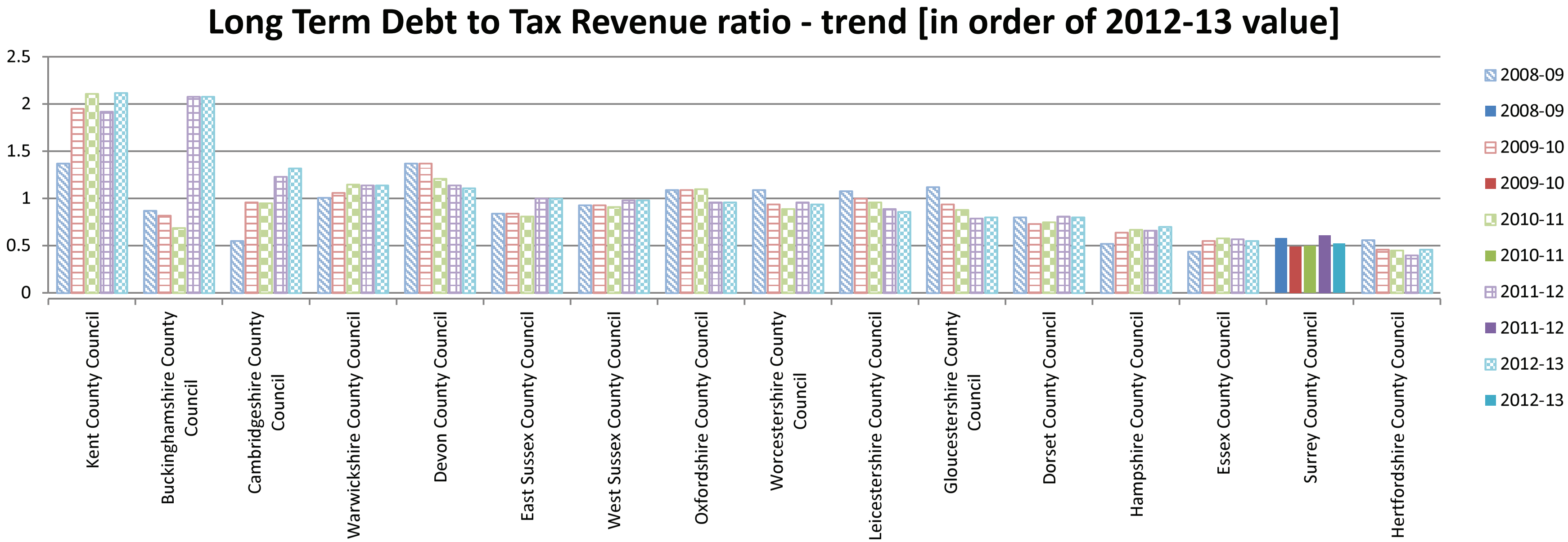



### Findings

The Council's long term borrowing ratio (as a percentage of tax revenue) is in line with the Council's Treasury Management Strategy. The Council maintains one of the lowest ratios across all of its neighbours, which has been enhanced because not all of the nearest neighbour authorities have seen a similar downward trend of borrowing levels from 2007/08 to 2012/13.

# Appendix 1 – Benchmarking

## Long-term debt to Tax revenue - trend




### Findings

The majority of similar Councils have reduced their long-term borrowing since 2008/09 and Surrey is not an outlier in comparison to this. As long-term borrowing was already low, this demonstrates the lack of significant Council Tax rises since 2008/09.







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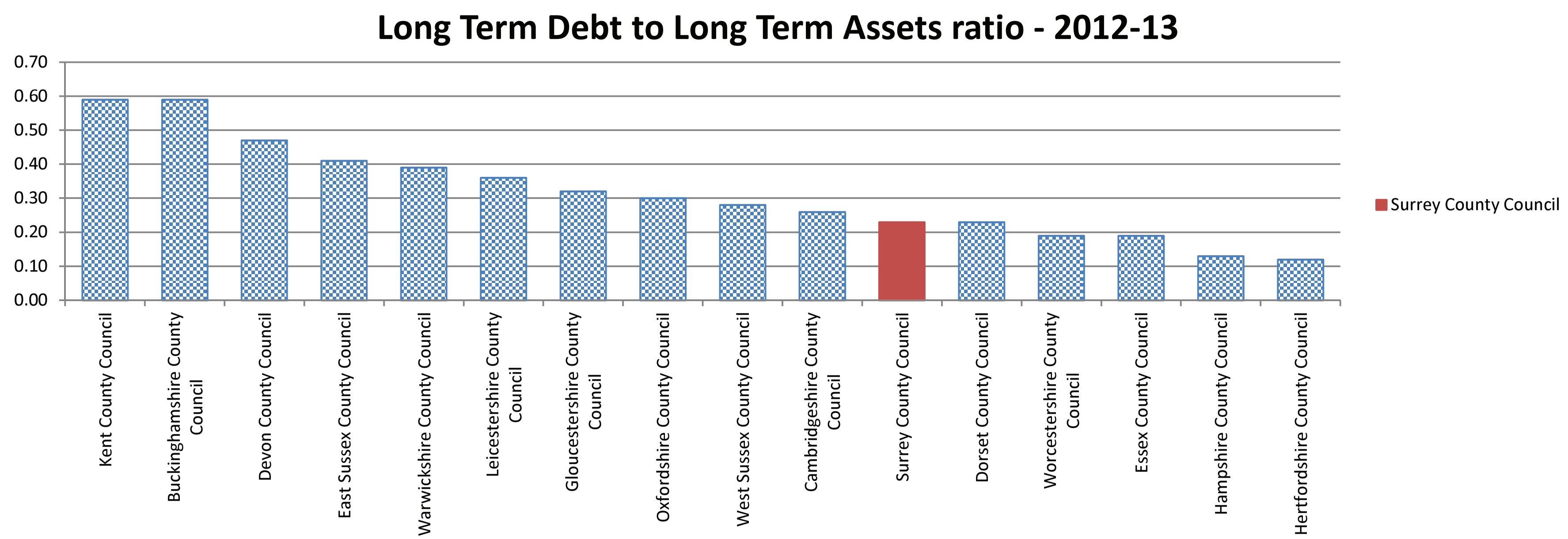
# Appendix 1 – Benchmarking

## Long-term debt to long-term assets 2012-13

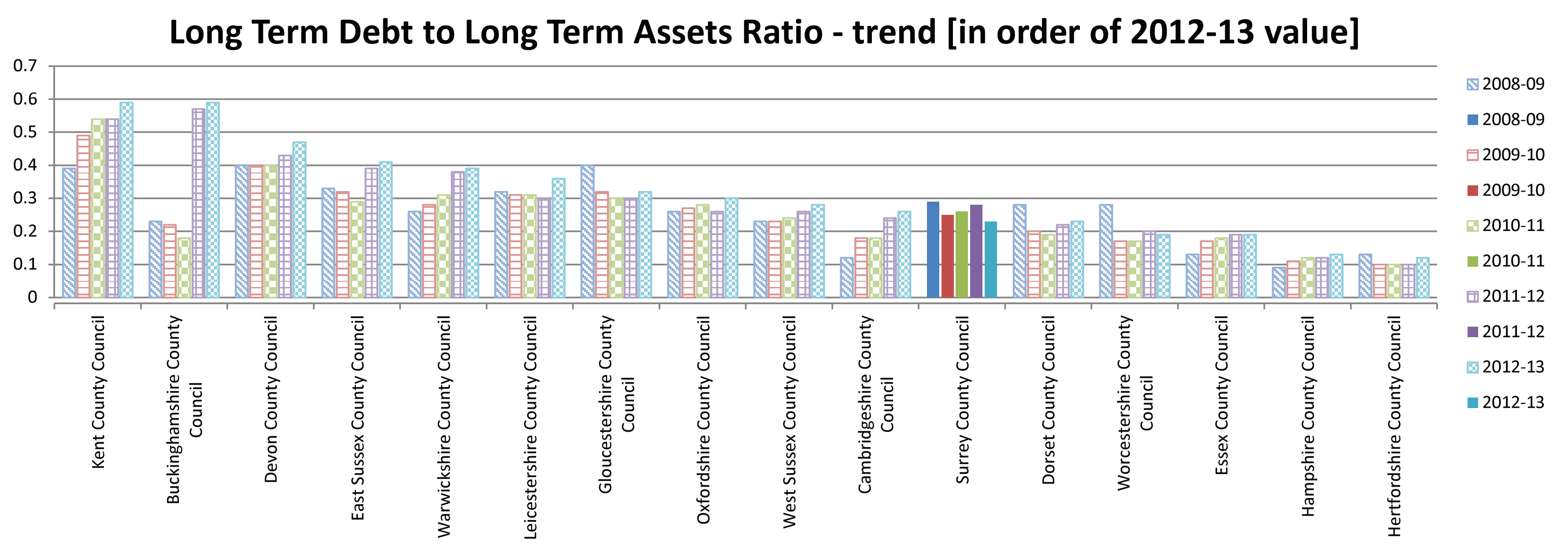



### Findings

The Council's long term borrowing to assets ratio is in line with the Council's Treasury Management Strategy. Overall the Council is slightly below the average across its neighbours. This is, in part, due to the Council's strategy to avoid borrowing.

# Appendix 1 – Benchmarking

## Long-term debt to long-term assets - trend

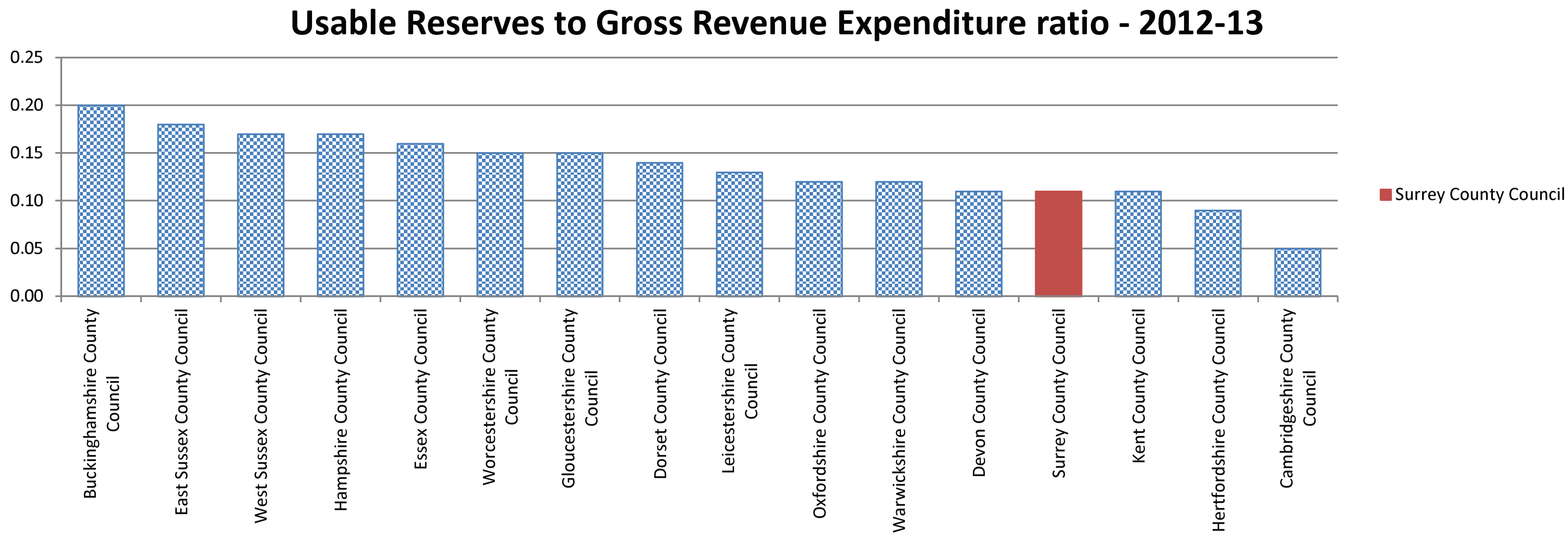



**Findings**

The Council's long term borrowing to assets ratio has decreased by 20% from 2008/09 (0.29) to 2012/13 (0.23), and is in line with the Council's Treasury Management Strategy. There is a mixed picture in terms of the movement across the nearest neighbours with eleven out of the sixteen having increased their ratio from 2008/09 to 2012/13, whilst five out of the sixteen Councils have seen a decrease over the same period.

# Appendix 1 – Benchmarking

### Usable reserves to gross revenue expenditure 2012-13



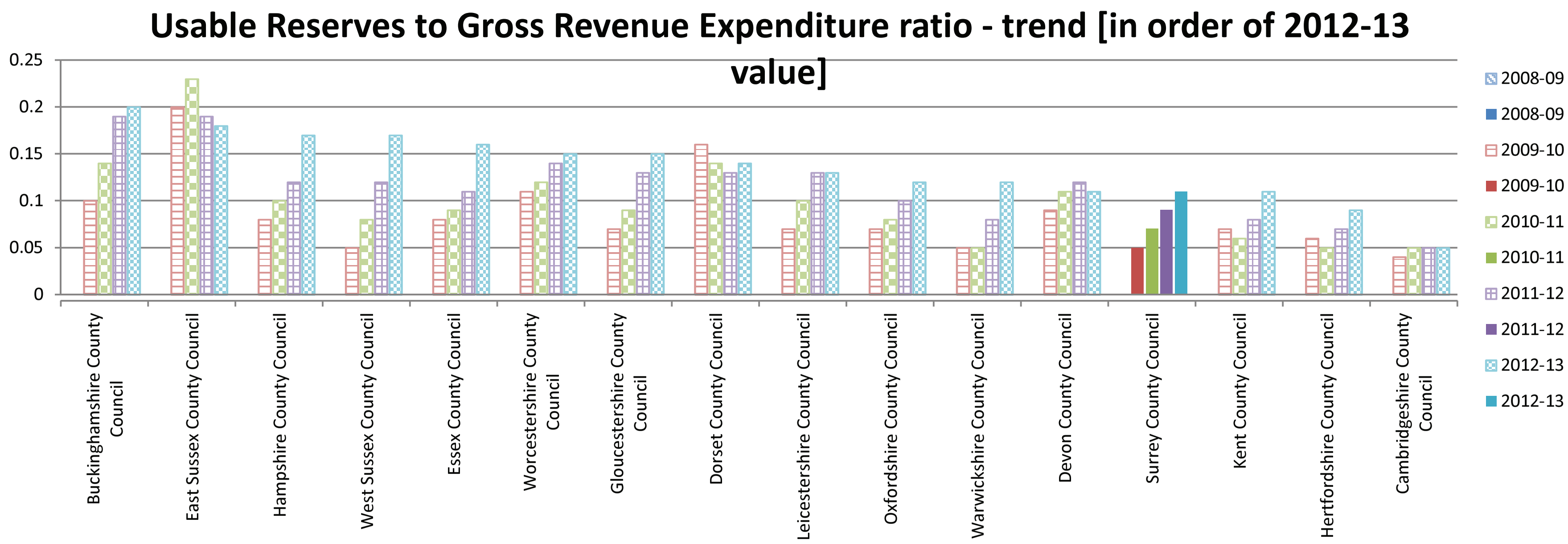

**Findings**

CIPFA's guidance on reserves is that the level should follow the S151 officer's advice to the Council, which should be based on local circumstances.

The Council has followed this guidance by increasing the level of its reserves over this period in order to provide mitigation against potential future funding restrictions.

# Appendix 1 – Benchmarking

## Usable reserves to gross revenue expenditure - trend

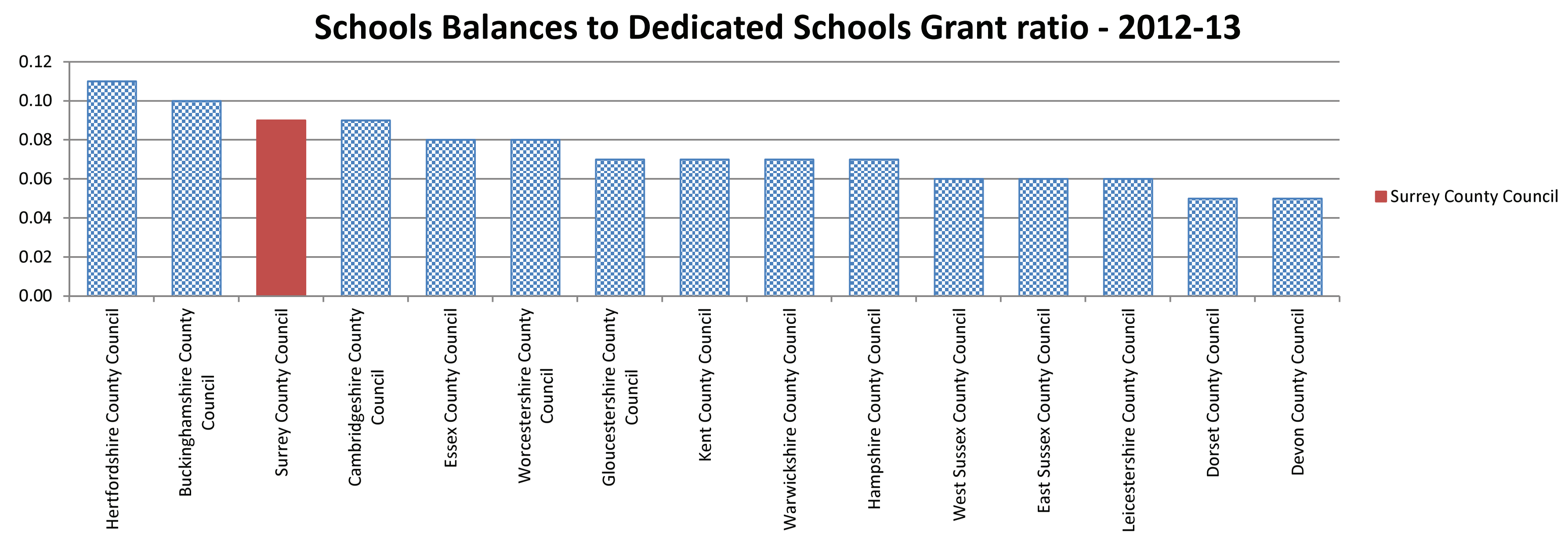



### Findings

The Council has increased its ratio of useable reserves to Gross Revenue Expenditure (GRE)since 2008/09 as part of its strategy to allow for contingency in achieving its mid and long-term strategies. This is in line with the majority of other Councils.

# Appendix 1 – Benchmarking

## Schools balances to Dedicated Schools Grant 2012-13

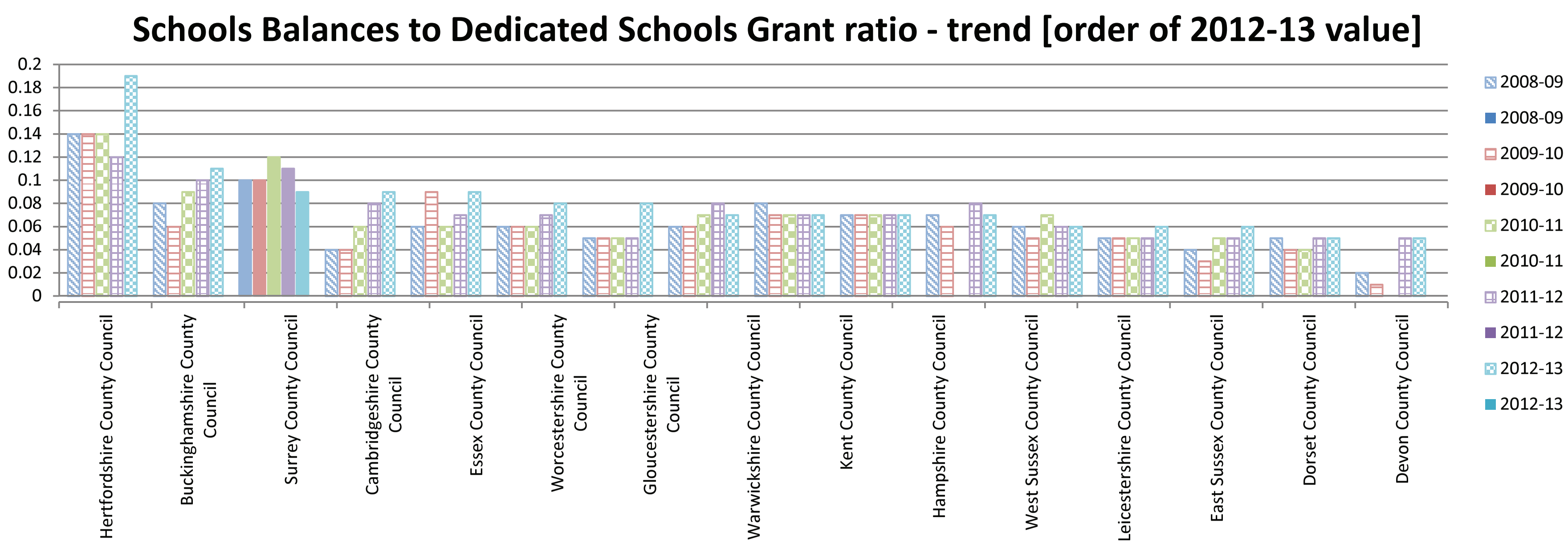



### Findings

The Council had a ratio of 0.09 in 2012-13, which remains slightly above average across the period (0.08) compared to its neighbours

# Appendix 1 – Benchmarking

## Schools balances to Dedicated Schools Grant - trend




### Findings

The Council's ratio has not changed materially over the period, being 0.07 in 2008/09 and 0.09 2012/13. This remains slightly above average across the period compared to its neighbours

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