Surrey County Council Finance

CIPFA report

July 2018

Section 1: Summary and conclusions

Introduction

The Leader and Chief Executive of Surrey County Council commissioned CIPFA to review the financial resilience of the Council and the effectiveness of its finance function.

CIPFA conducted discussions and interviews with key members of staff including the Chief Executive, the Corporate Leadership Team; the Leader of the Council and other key Elected Members. The team also conducted a 'deep-dive' examination on key aspects of the Medium Term Financial Plan 2018-21, and reviewed key documents, as well as undertaking a series of focus groups and conducting a survey of the Finance team. This report sets out the findings of this review.

Key findings

The main points from the CIPFA review are:

- **Surrey County Council is in a difficult financial position.** Despite repeated cost reductions, the expected increase in service pressures means that, as things stand, the Council will not have sufficient reserves to meet its expected budget gap in 2019-20 unless it acts now.
- **Despite some additional central government funding, Surrey County Council will need to reform fundamentally how it provides services to its communities.** A series of transformative projects are currently being developed and are due to be considered by Members in October 2018. Some of these initiatives will necessitate difficult decisions, but it is imperative that the potential costs and benefits are specified clearly and that implementation is not deferred.
- **In the meantime, the onus is on achieving savings in 2018-19 without the volatility in estimates and unexpected surprises experienced last year.** We are satisfied that the scale of the challenge set out in the MTFP is correct. Nevertheless, unexpected increases in demand and a failure to deliver a significant proportion of the planned savings in 2017-18 undermined the credibility of the financial estimates reported in-year and necessitated short-term spending cuts that can adversely impact on services.
- **As things stand, the pattern in 2017-18 is likely to repeat in 2018-19**. Our review of the MTFP identified a lack of granularity in some of the estimated pressures and changes facing the Council, and considerable uncertainties over the delivery of a number of the planned savings and utilisation of capital receipts.

- **There are no plans currently in place to resolve the data uncertainties in the estimates for 2018-19 and no 'plan B' to deal with unanticipated demand increases or the possible failure to deliver some of the proposed savings.** The Finance team is currently relying too much on 'workarounds', proxy measures and broad assumptions due to the lack of reliable performance data. These problems will take time to address and in the meantime contingencies are needed to mitigate the uncertainties they create.
- **The former Director of Finance developed a strong team bond within the Finance function. Drawing on the interviews we conducted, however, the team lacks sufficient drive and initiative to tackle the issues above.** The team had previously raised concerns on the Council's financial situation, but too much of its focus has been on delivering the traditional finance function. There was no evident appetite to drive changes across the organisation and current working practices have become normalised.
- **Service directorates were appreciative of the support they received from Finance, but we concluded that the team was too passive in its approach.** This is partly due to the short term cuts already imposed and the working culture that has built up. Staff told us that the increased number of vacant posts mean that they do not have time for a more strategic approach. The Finance team believe that they are already working at maximum capacity, yet a re-casting of the transactional work to more junior members of the team would free-up experienced staff time to raise financial awareness across the Council on the importance of delivering the MTFP savings required.
- **Whatever the reason for such passivity, a re-structuring of the Finance team is overdue.** The existing team is top-heavy and there is insufficient delegation of responsibility to more junior staff. The existing multi-tasking across the senior leaders in Finance means that the finance business partnering is less effective and there is insufficient focus on raising performance standards. The current focus of the team is focused too much on day-to-day tasks – 'what needs to get done' rather than strategic priorities - 'what's important' to the organisation and to the residents of Surrey'.
- **Uncertainties in the role of Orbis have contributed to the absence of changes to the Finance team.** The slow pace of integration has added to the need to make short-term spending cuts by not filling vacant posts in the Finance team and the lack of clarity on forward plans is becoming a hindrance to change.
- **If Surrey County Council wants to generate economies of scale from integration of back office services, then it will need to invest in driving that change.** Integration needs to be driven by those more experienced in change management and who can be fully focussed and accountable for

implementation. Our examination of the existing utilisation of £15 million of capital receipts in 2018-19 indicates that there are funds available to support such investment.

- **Alternatively, greater clarity of direction and the creation of 'centres of expertise' represent an opportunity for cultural change.** Uncertainty is adding to the lack of dynamism of the Finance team. Focusing instead on encouraging collaboration would also bring benefits, including: staff mentoring and development; the identification of opportunities for efficiency savings; good practices and lessons learned in business partnering; developing methods and techniques for forecasting future pressures and demands; and, using peer review to test the robustness of savings targets.
- **Once direction is confirmed, the pace of change will need to be quicker.** In comparison with shared services elsewhere, we would have expected a more advanced operating model for Orbis than what currently exists.

Conclusions

There is an urgency in the need to build financial resilience in Surrey County Council. We very much welcomed the commitment to grasp this challenge that was demonstrated by those Members and the Council's Senior Leadership team we interviewed. We have expressed our findings above very clearly, however, so that there is no doubts amongst all elected Members and the staff on the Council's current financial position.

Tackling the financial difficulties that Surrey County Council involves addressing the following five key points:

- Securing the commitment of everyone connected to Surrey County Council to resolving the financial difficulties faced.
- Re-structuring the Finance team so that it has a more dynamic, central role in driving change across the organisation.
- Planning now for the known uncertainties in the estimates for 2018-19.
- Implementing the structural changes needed to maintain a balanced budget in 2019-20 and 2020-21.
- Building a more robust approach to business management so that the changes made can be sustained.

Acknowledgements

We are very grateful to the constructive support we received from everyone connected with this review. Despite the scale of the challenges faced by Surrey County Council, it was very encouraging to see the commitment demonstrated by the Members and executive officers we met. This CIPFA review inevitably generated

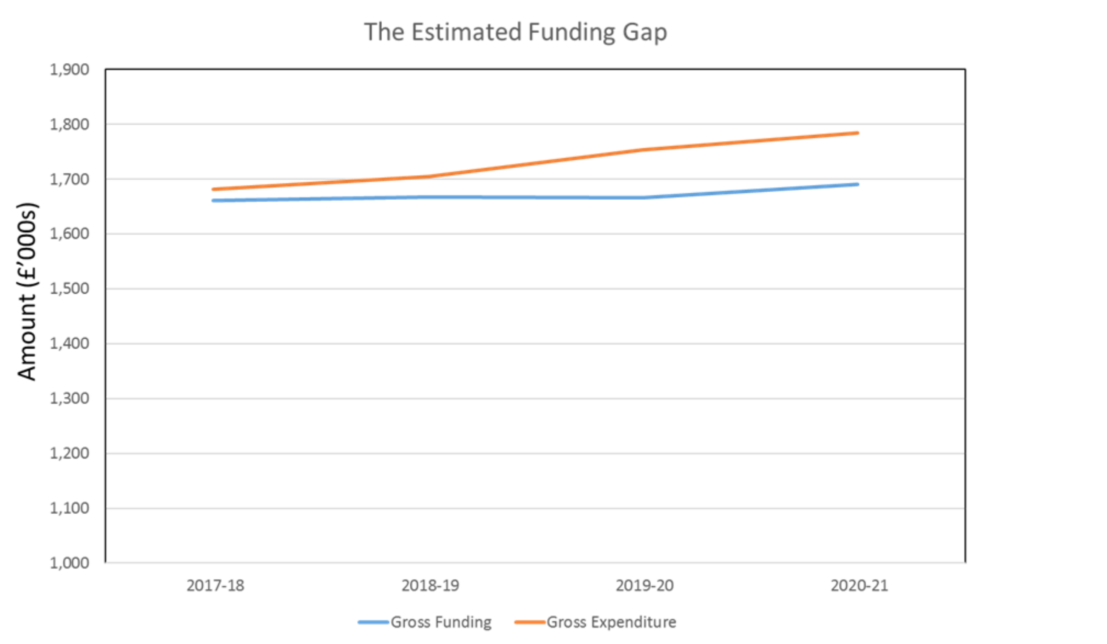
concerns and pressures for the Director of Finance and her staff in Surrey County Council. Nevertheless, they maintained a warm, constructive, and professional manner throughout the review. This welcoming and positive team spirit reflects the supportive and approachable leadership style of the Director of Finance.

Section 2: The MTFP

Background

Surrey County Council faces significant service pressures over the next three years that are unlikely to be offset by commensurate increases in funding. As figure 1 shows, gross expenditure is expected to increase by 6.5 per cent from £1.68bn in 2017-18 to £1.79bn in 2020-21, whereas gross funding is expected to increase by only 2.4 per cent from £1.66bn to £1.70bn over the same period. This would result in a funding gap of £36m in 2018-19, rising to £86m by March 2020, and to £94m by March 2021.

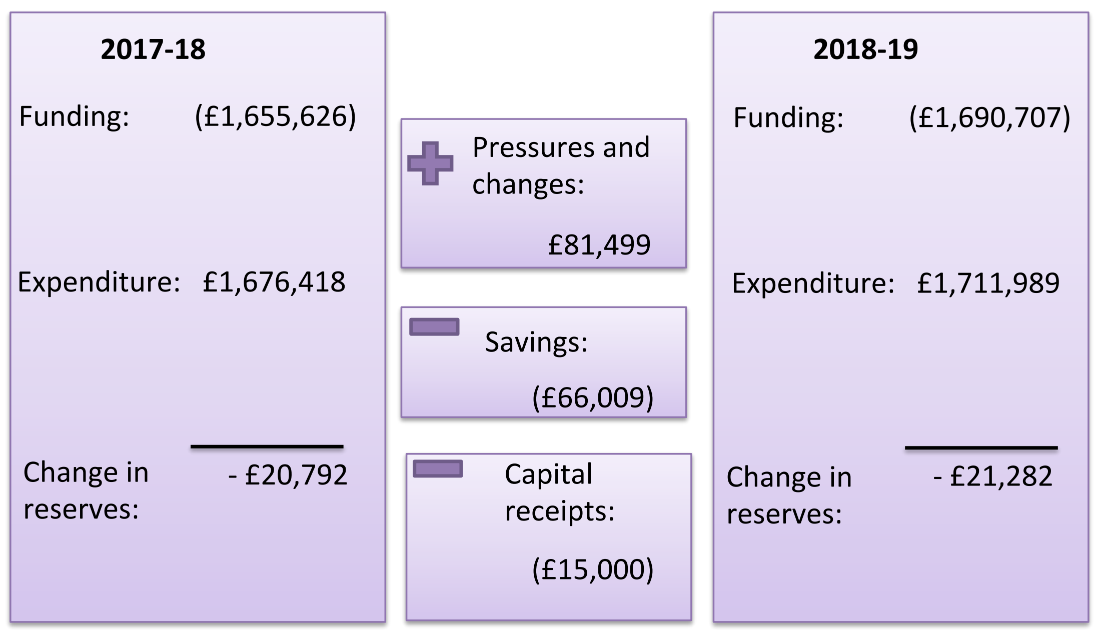
Figure 1: Projected Gross Expenditure and Funding



The Council no longer has the option of putting off change in the hope that circumstances might change. A series of transformative projects are being developed and the outline business cases are due to be presented to Cabinet in October 2018. The plans are still at too early a stage, however, for CIPFA to assess the likelihood that they will achieve the efficiency savings required in 2019-20 and 2020-21.

In the meantime, it is crucial that the Council delivers the efficiency savings planned for 2018-19. The additional pressures and changes (such as inflation and increases in demand) were anticipated to add an extra £81.5 million to spending in 2018-19. As a consequence, as figure 2 shows the increased budget gap would need to be met by savings of £66 million, the utilisation of £15 million of capital receipts and a further £21.2 million of earmarked reserves.

Figure 2: The scale of the financial challenge for 2018-19



Source: MTFP 2018-21, Surrey County Council

In practice, the reported underspend at the **2017-18 year end** of £1.3 million is relatively small when compared to gross revenue expenditure. Yet during 2017-18 there was considerable volatility in the forecasts, which undermined the confidence of many of those Members and Executive Directors we interviewed in the reliability of the management information.

The **pressures and changes** included in the Council's MTFP for 2018-21 represent the anticipated impacts of external factors on existing service delivery. As such, the estimate of £81.5 million comprises anticipated funding changes of -£26.6 million, inflation of +£34.7 million, changes in demand of +£60.9 million and changes in legislation and service delivery of +£12.5 million.

CIPFA selected the following areas for a deep-dive examination:

- **Contract inflation of £30.9 million**. The findings from our review were mixed. There was a reasonable explanation to support some estimates, but a lack of reliable underpinning data on others.

- **Changes in demand of £60.9 million.** We found similar difficulties in obtaining and scrutinising performance to estimate the financial consequences. It was evident from our discussions that there was very little performance data available to establish when and why such cases might arise. There is a lack of reliable and granular performance data to underpin such estimates.

These findings do not materially affect the rigour of the estimates presented in the MTFP, but they increase the risk of unexpected changes that might necessitate additional savings having to be found mid-year.

On **the planned savings**, the MTFP categorised the anticipated savings as comprising: £13.3 million 'red' – meaning that achievement of savings face severe challenges and barriers; £26.8 million as 'amber' – meaning that significant barriers exist to the savings being achieved and the service is developing plans to overcome this; and £25.8 million as 'green' – meaning that savings will be achieved with few internal or external barriers.

In terms of the RAG rating, our interviews identified inconsistencies over what was meant by the terms Blue, Red, Green and Amber and when savings should be marked as 'achieved' in the savings tracker. As a consequence, there were instances when the RAG rating for May did not match the description of progress.

On the planned **utilisation of capital receipts**, local authorities can use capital receipts from the sale of assets to help fund the revenue costs of transformation projects. At this stage, however, the Finance team is not able to demonstrate fully how the anticipated utilisation of £15 million capital receipts will be achieved.

Section 3: The capacity and capability of the Finance team

Drawing on the best practice principles of CIPFA's Financial Management Model[1], we examined the performance of Surrey's Finance team against the following approaches to financial management:

- **'Delivering Accountability'** represents the traditional core function of the Finance team where the onus is on maintaining adequate financial records

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[1] The CIPFA FM Model was originally released in July 2004 and describes a model for best practice in financial management within the public sector. It is recognised by HM Treasury (UK) as setting out the fundamentals of best practice financial management within a public sector organisation.

and ensuring that everyone in the Council complies with the existing financial regulations.

- **'Supporting Performance'** reflects the extent to which the Finance team works collaboratively with budget holders to identify better ways of working.
- **'Enabling Transformation'** represents a Finance team that is actively driving transformational change – it has identified opportunities for more cost-effective working and is driving the changes required.

There are a number of strengths in Surrey's Finance team. The former Director of Finance engendered a positive working environment that has enabled the team to cope well with existing cuts and the added pressures these have generated. The team is experienced and understands the work of the Council very well.

The Finance team continues to operate in a largely 'traditional' role, however, and the existing roles of the senior leadership team need to be more clearly defined. The blurring of roles and responsibilities between the Finance team and service directorates does not facilitate a mature working environment.

Section 4: Orbis

Orbis is a partnership between Surrey County Council, East Sussex County Council and Brighton & Hove City Council to provide core operational services, such as Finance, HR and Procurement through a collegiate approach.

In comparison with shared services elsewhere, CIPFA considered the extent of integration in Orbis to be relatively immature. There are pockets of modernisation across Orbis but, given that the partnership is now in its third year, we had expected a more advanced operating environment than what currently exists.

It was apparent from our interviews that the integrated leadership team seems to work well together. Nevertheless, there appears to be a lack of well-aligned change management skills amongst the teams supporting each sovereign lead that may explain the slow progress with integration.

The lack of pace and drive in integrating Finance functions has generated uncertainty that is also beginning to impact on the performance of the Finance team within Surrey County Council. Participants in our focus groups cited the lack of clarity on what was required for Orbis as a key reason why Surrey Finance team had not re-structured to mitigate the impacts of unfilled posts.

A number of interviewees emphasised to CIPFA that the main benefit of the partnership agreement between the three Councils was to encourage collaboration, thereby building expertise and strengthening resilience. We did find instances from our interviews that some of the Finance team had utilised the linkages with East

Sussex and Brighton & Hove to gather collaborative data. This was very much the exception rather than routine, however, and we would have expected much more collaborative working.

Those Members and senior leaders in Surrey County Council we interviewed were frustrated with the returns to date from the investment of time and resources in Orbis. An outline business case is being prepared by Surrey County Council to review: the capacity and capability of Orbis to support Surrey's transformation programme; and, the potential for additional savings. It will be important to assess the appetite in East Sussex County Council and Brighton & Hove County Council for further integration as part of this review.

The central premise to any fully shared service operation is to establish what data are required to deliver a fully integrated set of processes and then to design, procure or integrate existing systems around this core design principle. This should be a central element to any review of the future of the Orbis partnership.

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