Grant Thornton

Supplementary VFM Findings Report 2017/18:

Review of financial health arrangements

Surrey County Council

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Contents

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Summary of findings

Overview

The Council has taken robust steps to address the significant financial challenge that it faces in 2018/19 and over the next two years up to 2020/21. Significant progress has been made recently and under Cabinet oversight, the new management team has acted promptly and effectively to strengthen arrangements to manage and deliver the planned savings.

However, at the time of review further work was underway to develop the new in year savings and the transformation plans to full business case stage so they can be implemented. Delivery of the additional in-year savings and the transformational programme within the required timeframe remains highly challenging and will require key delivery milestones to be met in full and on schedule if financial resilience is to be achieved by 2020/21.

1. MTFP and key assumptions and savings plans 2018/19

- We note that since financial year 2017/18 there have been significant changes to the management team and they have collectively recognised that the approach taken in previous years to use reserves to balance the budget is not sustainable and that urgent action is needed. This includes a formal recognition of the responsibility of individual senior managers to deliver change in the form of budget accountability statements.
- The Council is reporting that it is on track to deliver planned MTFP savings of £66m for 2018/19 and this corresponds to detailed financial reporting information provided by the Council's corporate finance function.
- However, an in year unfunded budget pressure of £15m has also emerged that will need to be mitigated in addition to the anticipated funding deficit. This overspend is related to pressures on SEND that should be funded through the High Needs Block of the DSG but the Council is responding to this to ensure it does not erode their financial standing. This is being addressed by increased savings built into revised budget envelopes for the current year, which have been approved by the Cabinet (see below).
- In addition to planned MTFP savings, revised budget envelopes for 2018/19 have been developed which aim to reduce in-year spending by a further £40m. This is based primarily on short term and one off measures. These in-year savings have been identified an await management action to implement in full but with only six month of the year remaining to deliver them and there is a significant risk that savings will fall short of the planned total.
- The in year savings are primarily concerned with avoiding the planned drawdown of reserves of £21m and mitigating the projected £10m budget pressure that has arisen in year. If delivered in full, this will enable a small contribution to reserves to be made and will maintain the Councils ability to use reserves to manage future financial pressures during 2019/20 and 2020/21.
- However, should the Council fall short of its £40m in year savings target, the remaining reserves available to manage financial pressures will be depleted. The Council will then have limited scope for the further use of reserves to mitigate any potential budget overspends or shortfalls in savings in 2019/20 and 2020/21, without compromising other projects and commitments or undermining its ongoing financial resilience.
- The Council has taken steps to identify non-recurrent savings included within current savings plans and has added these back to the projected budget envelopes from 2018/19 onwards to ensure the resulting deficits are closed on a sustainable and recurrent basis through the transformation programme.
- We note that a key factor in the achievability of the £85m saving target for 2019/20 has been the reduction of MTFP assumptions over demand cost pressures, focused on Adult Social Care. The reduction in cost pressures is dependent on behavioural and cultural changes within the services and there is a risk that this may take longer to implement than anticipated resulting in these cost pressure re-emerging.

2. Transformation plan and projects 2019-2021

- The Council is in the process of developing a revised transformational programme to reduce demand and costs within available resources by the end of 2020/21. The draft business cases were reviewed by Cabinet on 30 October 2018 and final business cases are due for approval in November 2018.
- Additional external resources have been procured to support the development of robust business cases covering transformation across the full range of Council services.
- The existing transformation projects have been subject to 'deep dives' during the first part of 2018/19 to challenge their robustness and this has resulted in a reduced number of more robust outline business cases.

Summary of Findings (Cont'd)

- In most cases, savings within the transformational programme will require further development before they move to full business case stage. In some cases they are contingent on extensive stakeholder consultation and member agreement. All of these aspects indicate that a significant lead time may be required before savings can start to be realised. There is a risk that the Council may under-estimate the lead time required to deliver the full value of savings within the required timeframe.
- The interdependencies between the projects will also need to be carefully managed to ensure effective delivery. Effective programme and project management will be essential to ensure the in-year and transformational programme is effectively managed and remedial action identified and taken as required. The risk of slippage is moderate to high and the Council needs to consider how it might mitigate this risk, given that reserve levels may not be able to accommodate significant under delivery.
- The extent of the transformational change across the Council should not be underestimated, services and staff will both have to facilitate change whilst also being directly affected by the transformational programmes.

3 Other Sources of Evidence

The review by CIPFA into Surrey County Council Finance concluded that there was an urgency in the need to build financial resilience in Surrey County Council. It concluded that 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.

As has been noted under points 1 and 2 above, the Council has acted promptly to address the 5 points, including specific actions to address identified weaknesses in the 2018/19 financial position and by strengthening its transformation programme to underpin the plans to address the revised savings plans for 2019/20 and 2020/21. The Council has also established an Finance Improvement Programme to ensure that the Finance team has sufficient and appropriately skilled resources.

Recommendations

We are satisfied that the Council is currently undertaking a robust process to identify and implement its transformation plans. In our view Council should therefore continue to :

- Embed the new programme and project management arrangements and provide close support and scrutiny over the activity of service directors and budget holders on an ongoing basis.
- Monitor progress against planned savings on a regular basis, at least monthly recognising that in some circumstance, weekly updates may be required at critical stages.
- Ensure that the Council has the capacity and skills to manage the change and bring in additional external support as required.
- Embed a culture of ownership of financial management across the organisation.
- Ensure that the impact of transformational changes to services is fully understood and analysed in terms of benefits and risks to communities.
- Make sure that efforts to expedite and implement aspects of transformation prior to the full business cases being finalised, do not risk overlap or conflict with the overall transformation programme.
- While the Council has identified an additional £40m of savings in 2018/19 to reduce the use of reserves, it should consider whether a pipeline of additional plans can be developed to mitigate risks which may arise during the implementation of the transformation programme.

Context

Background to the Council's financial challenges

Following the Government Spending Review in 2010,the Cabinet and the Council anticipated and planned for reductions in government funding over the medium term. The Council's plan was to build up reserves, however, the extension of austerity and delays to the Fair Funding review meant that these were not sufficient to see it through to a period of sufficient and stable funding. The Council's 2015-2020 Medium Term Financial Plan (MTFP) was designed to increase its financial resilience, manage any additional call on council taxpayers and reduce the Council's reliance on council tax and Government grants.

There were a number of structural issues that had, and continue to have, an adverse affect on the Council's funding position:

- In 2014/15 £65m of funding for severe Learning Disabilities (LD) was rolled into RSG by government. RSG has subsequently been reduced to £4.5m in 2018/19. In 2018/19 the Council's view is that it received £39m less in SFA (core funding) than the estimated cost of providing LD services.
- NHS public health was transferred to Local Government but Surrey received £14m less funding than what the Council considers is required.
- In addition, a shortfall of approximately £5m for national funding for unaccompanied asylum children that they take into care.

In February 2016 the Leader of the Council reported to Cabinet and Council, that they could not wait on Government to provide a solution and that as demographic demand pressures continued to grow the Council needed to find new ways of delivering the services, which was why implementing the Public Value Transformation programme was of great importance.

Implementation of the transformation programme in 2016 and 2017 was not at the speed anticipated or required and therefore put further pressure on the Councils financial position.

In 2018 Council has developed a new and ambitious transformation programme in order to balance rising demand with flat or falling resources – including the need to make extensive budget savings up to 2017/18 and throughout the period of the Council's medium term financial plan up to 2020/21.

There is strong political and management support for the new transformation programme as the Council recognises that delivering Council services within reduced future funding envelope, while minimising the need for Council tax increases, requires services to be delivered more efficiently, through greater use of technology and other means.

In some cases the Council will also have to consider the range and extent of services offered in the context of the level of priority to the County's residents, requiring an effective dialogue between elected members and the public.

In order to cover the cost of delivering services while service transformation could be undertaken, the Council has made use of the reserves it had built up to help fund an annual budget deficit, since 2014.

Based on the current MTFP, by the end of 2018/19, the Council's reserves reserve levels will have reduced to roughly the level they were at in 2010/11 at the start of the period of austerity. Due to the need for a minimum level of reserves to be held to mitigate against financial risks. The Council had previously assessed that it would not be prudent for reserves to be reduced further.

The Council has delivered significant savings through its current MTFP. However, during 2018, the Council's management team identified weaknesses in the design and execution of existing MTFP savings plans and that a significant proportion of savings to date have been achieved on a non-recurrent basis and have therefore not resulted in a permanent reduction in the budget. This means that additional recurrent savings have to be found from 2018/19 onwards in order to achieve a balanced budget.

Action taken by the Council

The financial position has prompted the Council's Cabinet and management team to significantly revise and accelerate its medium term financial plan and transformation plans for the period 2018/19 through to 2020/21. In order to protect reserves and ensure financial resilience, it has also been necessary to develop short term measures to limit expenditure in 2018/19.

Context

The following action has been taken by the Council:

- Review of Financial Resilience commissioned from CIPFA
- A programme of 'Deep dives' undertaken into existing savings and transformational plans to provide challenge and the basis for revision.
- New budget envelopes set for 2019/20 onwards for each service that in total will lead to a balanced budget without the need for the use of reserves or other one-off savings.
- Revised budget envelopes for the current year (2018/19) that aim to reduce spending by £40m in year. If successful this will mean not having to use reserves to balance the budget this year as originally planned.
- A revised accelerated transformation programme to bring costs and expenditure within available resources from 2019/20 onwards.
- Budget managers (executive directors and heads of service) are to be held accountable for delivering within budget envelopes, backed up by a signed Budget Accountability Statement.
- The Cabinet has agreed a Preliminary Financial Strategy ("PFS") to take to full Council in November, that will reflect the results of the actions noted above. The Cabinet, supported by the Corporate Leadership Team, have been central in defining the Council's key priorities included within the Organisation Strategy, and identifying the drivers of change to transform and become a very different organisation.
- In addition, members have been more widely engaged in the shaping of the Organisation Strategy, including through Corporate Overview Select Committee (COSC) reviewing the Community Vision for Surrey and corporate Full Business Cases at their meeting on 20 September 2018, and the Organisation Strategy on 25 October 2018.
- As part of the PFS the Council is considering a range of measures to achieve the savings it needs to make to deliver a sustainable budget for the long-term. A number of public consultations launched on 30 October 2018. The Council will take Residents' and other stakeholders' views on-board for the decisions members need to take, and consultation results will be reported to Cabinet and Council in early 2019 to inform decision making around the revenue and capital budget for 2019/20.

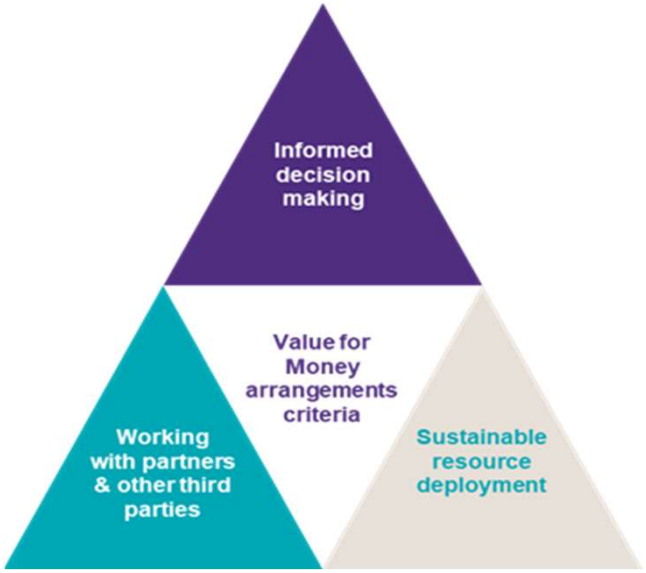
Our Approach to VfM Risks

Overview of VfM methodology and risk assessment

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether the Authority had, in all significant respects, proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

This is supported by three sub-criteria for auditors to consider, as set out in the following diagram:



As part of planning, auditors are required to consider the risk of reaching an incorrect conclusion in relation to the overall criterion. The risk assessment enables the auditor to determine the nature and extent of further work that may be required. This means that if the auditor does not identify any significant risks there is no requirement to carry out further work.

The risk assessment draws on relevant information including, but not limited to:

- cumulative knowledge brought forward from previous audits;
- relevant findings from work undertaken in support of the opinion on financial statements;
- reports from the audited body including internal audit;
- information disclosed or available to support the annual governance statement and annual report (where applicable);
- information available from the audited body's own risk registers and supporting arrangements; and
- reports from regulators or inspectorates in relation to services provided by the audited body.

Where the auditor has identified 'significant risks', or is unable to conclude whether a significant risks exists without undertaking significant additional work, the auditor should document the additional work they plan to do in response and report these risks to those charged with governance. Any additional work undertaken should be proportionate to the severity and nature of the significant risk(s) identified.

Our Approach to VfM Risks (Cont'd)

We carried out an initial risk assessment in January 2018 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you via our Audit Plan in March 2018. These were:

Financial Health

The Council has a strong track record of delivering a budget underspend at year-end, despite reduced funding from central government. Forecast revenue budget outturn for 2017/18 was s a £6m overspend.

We planned to review your Medium Term Financial Plan, including the robustness of assumptions, savings plans and revenue generating schemes. We planned to discuss your plans and outcomes with management, as well as reviewing how finances were reported to Councillors.

Children's Services

Ofsted issued a critical report on children's services in 2014/15 and the Council was awaiting a follow up review. We issued qualified except for conclusions in 2014/15, 2015/16, and 2016/17 due to Department for Education interventions.

We planned to review any third party reports as well as your own monitoring and self-assessment.

The purpose of this review

This review summarises the additional work we undertook to support our VfM conclusion, specifically in regard to the Council's financial health. This review considered the significant financial challenges facing the Council and the implications for the Councils on-going financial position and plans to achieve financial sustainability.

This report is supplementary to our Audit Findings Report, Issued on 26 July 2018 and is intended to provide further information to those charged with governance on the basis for our VfM Conclusion, which was issued on 28 September 2018 and is attached as Appendix 1.

Children's services

Our review of the May 2018 Ofsted report led us to conclude in July 2018 that the processes and procedures the Council has in place in relation to children's services are not conducive to providing value for money for residents.

We reported that although you have begun to address these issues over the last few months at the time of writing it is too early to judge whether these changes will have the desired effect and whether they will become embedded across the organisation.

Further to this, we note that the Commissioner for Children's Services in Surrey published a letter on 31 October 2018 in which he wrote to the Secretary of State for Education to recommend that Surrey County Council retain control of the delivery of its children's social care services. The Commissioner recommends that the Minister allows the Council a further 12 months to demonstrate that the action plan it has put in place is working, alongside reviews by the Commissioner in around 6 and 12 months.

The Commissioner writes that the political leadership of the Council has accepted the need for change. However the Commissioner notes that it is too early to make a secure judgement about whether the steps that have and are being taken will bring about sustainable improvement in the effectiveness of children's social care services in Surrey.

We are satisfied that the Commissioner's report is in line with our previous conclusion reported in September 2018.

Our Approach to VfM Risks (Cont'd)

Our approach to assessing the financial risks

We met with the Chief Executive in April 2018 and discussed the Council's financial challenge and our planned VFM work. In May 2018 we presented the Chief Executive with a proposal setting out the VfM audit work which we planned to undertake. We were subsequently informed that the Council had engaged CIPFA to undertake a review of the it's financial resilience and that as the work overlapped with our proposal we agreed to await the publication of the CIPFA report before completing our planned work and concluding on the VfM arrangements. We did however review the Council's in year financial reporting and 2018/19 budget and identified, from Cabinet papers and in discussion with the Finance team, that the Council had failed to delivered the full level of savings required in 2017/18 but had managed its financial position using non recurring measures. Given the planned increased use of reserves in 2018/19 we were concerned at both the size of the budget gap identified, the risks to the in-year delivery of the required recurring savings and the status of the Council's arrangements to deliver the required medium term savings.

In July 2018 we were informed that the CIPFA review had not covered the matters we had outlined in our proposal and so we proposed a revised work programme to the Interim Director of Finance to enable:

- Consideration of the MTFP and the key assumptions and savings plans for 2018/19
  - Review of savings achieved in 2017/18 against original savings plan.
  - Plans for Council Tax increases and predictions for business rates pilots.
  - Review of reserves and the use of reserves over the last few years.
  - Consideration of Deep Dives undertaken.
- Consideration of the transformation plan including transformation projects.
  - How are outline business cases (OBC) set up? How are full business cases (FBC) set up? What level of scrutiny is applied and what governance structure is set up to review and approve OBCs and FBCs?
  - Are financial savings recorded gross or net of any investment (including one-off and ongoing costs)? Are non-financial savings taken into account when projects are set up and monitored?
  - What stage are the transformation plans at the time of the work (OBC / FBC)? What savings have been delivered to date? What RAG rating is attached to each project? How RAG ratings are derived. How savings are monitored and challenged going forward.
- Consideration of the CIPFA report.
- Discussions with the Council Leader, Chief Executive, s151 officer, and other appropriate people to obtain assurance over the plans and arrangements given the size of the challenge.
- Review of budget outturn reports for 2018/19 to date.

As part of this process we have interviewed a range of senior officers involved in the financial planning and monitoring process and for facilitating the delivery of transformational savings. We have also performed a review of relevant documentation, including Cabinet reports and business cases.

Limitations in scope

We have only carried out work in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

Detailed findings

	Area of focus	Findings
1. The MTFP and the key assumptions and savings plans for 2018/19	Overview of MTFP and savings plans for 2018/19	The Council is facing forecast price and demand pressures and based on the savings planned within the MTFP will need to drawn down from its reserves to achieve a balanced budget. The Council's current MTFP assumes that £66m of savings will be made in regard to 2018/19 outturn, and that c.£21m of reserves will be drawn down. The Council plans to deliver £66m as set out in its MTFP and financial reporting in the year indicates that it is on track to deliver this. The Council identified approximately £74m (comprising £71.7m savings target aggregated across the directorates plus reported net savings plans over target to the value of £2m) of proposals to meet the £66m of planned MTFP savings. This provides some headroom, but as at September 2018 the Council is projecting delivery of £68m based on their assessment of risk. The £68m comprises approximately £32m already reported as achieved, £24m on track (Green RAG rated), £13m which at some risk (Amber) and £5m at high risk (Red). The projection is equivalent to all Ambers being delivered but all Reds not, but this does still allow for c.£2m of further slippage whilst enabling the £66m to still be met. The Council has taken steps to ensure that the savings delivered are recurrent, and where they are not recurrent, that this has been identified and rolled forward into the revised savings requirement for 2019/20.
	Review of savings achieved in 2017/18 against original savings plan	The Council achieved a £1.3m underspend on budget and delivered £80m in savings in 2017/18. However, this was below the planned savings target of £104m which has added increased pressure to deliver additional savings in 2018/19 and beyond. In addition, the Council identified that a significant proportion of the saving achieved was non-recurrent (one-off) and would therefor have to be rolled forward into the revised savings target for 2019/20. Within this it was noted by the Council that planned transformational savings in the latter years of the MTFP were not supported by robust business cases, prompting the process of deep dives and the revision of business cases that has taken place in the first half of 2018/19.
	Plans for Council Tax increases and predictions for business rates pilots	The plan is to increase council tax by the maximum amount without triggering a referendum. No further adults precept is anticipated (SCC did 3% and 3% rather than one off 6%). The Council has benefitted from being a business rates reform pilot, however, the benefit has been treated as a one off benefit as it cannot be guaranteed to deliver benefit in future years.
	Use of reserves	The Council's current MTFP includes an assumption to draw down on reserves, with £21m planned to be used in 2018/19 to supplement service budgets. As at 31 March 2018, usable reserves stood at £102m including earmarked reserves that could in theory be deployed to support the future financial position. However, in reality a significant proportion of earmarked reserves relate to schools (£42m) or are allocated to fund existing commitments and projects. A budget equalisation reserve of £23m has been set aside that would cover the planned MTFP use of reserves for 2018/19 but any further use would be at the expense of other commitments and projects, and the Council's ability to manage future risks around the budget could be impacted. Therefore the £40m additional in year savings is essential if the Council's ability to manage future financial risks is to maintained – including the ability to manage any shortfall in savings delivered by the Transformation programmes.

Detailed findings (Cont'd)

	Area of focus	Findings
1. The MTFP and the key assumptions and savings plans for 2018/19	Changes in year affecting the MTFP	**Reduction in budget pressures** The Council has undertaken work to recalculate the projected budget pressures anticipated for 2019/20. The impact of this has been to reduce the savings requirement from 2019/20. The changes to reduce spending pressures focus on behaviours and culture in key service areas are intended to work within current processes – with the objective of ensuring that staff achieve better value (e.g. in procuring adult care packages). The Council assessed that the original MTFP demand assumptions were based on historic trends that reflected a lack of control over spending, resulting in a 'gold plated' service that it was no longer possible to accommodate. Other changes to assumptions, include the removal of budgeted costs associated with negative Revenue Support Grant (RSG) contributions. These net effect of these changes to financial planning assumptions, means that the recurrent savings required drops from £136m to £85m. There remains a risk that behaviours and culture in key areas may not be able to be changed to the extent required to reduce financial pressures to the full extent projected for 2019/20. **Additional in-year savings** Additional measures have been taken to strengthen the financial position in 2018/19, and new budget envelopes have been issued to services to achieve an additional £40m of in year savings by year end. These additional savings are intended to avoid the use of reserves (£21m planned in 2018/19) and to cover the unplanned net budget pressures arising in year of £15m, enabling a modest surplus to be transferred to reserves at year end. The £15m relates to pressures of SEND that should be funded through the High Needs Block of the DSG, but is not. The Council is responding to this to ensure that it does not erode its financial standing. A significant proportion of the additional savings are non-recurrent one off savings, and this is acknowledged and has been factored into the savings requirement for 2019/20 and 2020/21. As at September 2018 (Month 6) directorates have to deliver management actions to the value of £32.2m that are currently outstanding in order to achieve the reduced budget envelope. The savings in this category include measures such as not recruiting to vacant posts or making current vacancies permanent, cost avoidance, releasing budget for anticipated pressures that have not materialised, deferring planned expenditure and bringing forward planned savings. A key objective of this exercise is to protect Council reserves, effectively preserving them for use in dealing with additional financial pressures arising in 2019/20 (e.g. to cover any shortfall on savings from transformation in that year). The additional savings introduced for 2018/19 are a significant challenge for the Council. The Council are aware that this is a significant challenge and very high risk with only 6 months in which to deliver these savings. However, even if only part of these savings were to be delivered it will have a beneficial effect of covering the projected budget overspend and reducing the amount of reserves that need to be drawn down from that originally planned in the MTFP. **Deep dives and revision of savings plans** In response to Cabinet concerns about the robustness of transformational savings included in the MTFP, the Council undertook a number of deep dive exercises to assess the robustness of savings plans and the underlying business cases. These deep dives exercises have helped to remove some of the blockers and some rationalisation of the schemes has taken place.

Detailed findings (Cont'd)

	Area of focus	Findings
1. The MTFP and the key assumptions and savings plans for 2018/19	**Review of budget outturn reports for 2018/19 to date.**	As at the end of month 6 the Council is forecasting a net overspend of £10.3m on budget for 2018/19, a reduction of £1.5m compared to the previous month due to increased savings in Adult Social Care. The area forecasting the highest overspend is in Special Educational Needs and Disabilities (SEND). The Council is currently forecasting to deliver £2m above the planned £66m savings as set out in the MTFP, with approximately £56m achieved or on track. A breakeven position on the original MTFP remains achievable if the overspend can be mitigated by the £40m additional savings.
2. Transformation plan and projects 2019-2021	**Overview of MTFP and savings plans 2019-21**	The majority of the recurrent savings to be delivered, primarily in 2019/20 and 2020/21, are set out within 22 transformation business cases. The outline business cases have been subject to significant levels of review and challenge and are in the process of being developed into full business cases.
	Development of business cases	Members have approved in principle the outline business cases presented to them at the autumn away day, subject to the formal approval of the full business cases in November 2018. The business cases cover both transformational change as well as enabling schemes, on which other projects will depend (e.g. IT, and agile working) so there are inter-dependencies in the critical path and a risk of double counting that needs to be carefully managed. In terms of the timing, it is likely that a proportion of the business cases will involve changes to the services currently offered (e.g. in the thresholds for access to Social care) which may need to go through public consultation prior to inclusion in the budget – increasing the risks to delivery. We note that this process has already commenced following review by Cabinet on 30 October 2018. We are aware that the business cases we reviewed were scheduled to be fully scrutinised and validated by senior management prior to approval by Cabinet, but that this had not yet taken place at the time of our review. Our review of the business cases confirmed that at that stage further work was required to provide sufficiently robust and deliverable plans to ensure delivery. We note that the business cases were subsequently reviewed by Cabinet on 30 October 2018. We will continue to monitor progress in finalising and delivering the business cases as part of our ongoing VfM work.

Detailed findings (Cont'd)

	Area of focus	Findings
2. Transformation plan and projects 2019-2021	**Scrutiny and governance structure to review and approve business cases**	The Council recognise that it has a significant challenge ahead and to ensure delivery has introduced new transformation governance arrangements. Transformation have been significantly strengthened, and will be overseen by a Joint Change Board which includes Cabinet Members. This will be supported by a Transformation Strategy Board where executive directors will meet monthly to track benefits realisation, and weekly monitoring carried out by directorate teams supported by finance business partners. This structure should enable Members and the Corporate Leadership Team to oversee and approve business cases, ensure that barriers and are managed and to ensure issues and slippage are identified and actioned on a timely basis. All directorate business cases will be subject to challenge meetings that will include the Chief Executive and Director of Finance to help ensure that they are robust. Additional support has been procured externally to support the process and bring experience of similar transformation undertaken at other Councils. Members have been fully informed and through an away-day briefed on the challenge ahead and outline business cases have been presented and approved in principle. Budget managers (exec directors and heads of service) are accountable for delivering within budget envelopes, backed up by a signed Budget Accountability Statement.
	Robustness of projected financial savings	Until the business cases have been finalised, reviewed, subject to consultation and approved by members, it is not possible to conclude on the likelihood of delivery. However, initial review of the outline business cases indicates that significant progress is being made and that a robust process of review and challenge is on place, that should help ensure that the final plans are deliverable. There remains a risk that the extent and scale of change required to deliver £85m of savings in 2019/20 is subject to the risk of delay or elements of savings being eroded as a result of the review and finalisation process.
	Consideration of non-financial impact	We note that the outline business cases do address non-financial benefits and risks. However, we note that due to the need for the Council to act quickly to address the financial position, a number of savings initiatives are being developed in parallel – specifically, the original MTFP schemes, the additional in year savings, the transformation projects (both enabling and service related), the change in behaviours underpinning the reduction in cost pressures. There is a risk that these measures could become difficult to co-ordinate, savings could be duplicated and short term savings measures could undermine longer term development plans. We note that consideration has been given to the impact of transformation on services, within the business cases. The Council will need to assure itself that risks associated with service delivery and the impact on Surrey communities is fully understood and appropriately managed - particularly in regard to Adult and Children's Social care.

Detailed findings (Cont'd)

	Area of focus	Findings
2. Transformation plan and projects 2019-2021	**Progress made in developing and delivering business cases**	As noted above, significant progress has been made in developing the transformation business cases. However, at the time of review they have yet to be fully reviewed and tested through the governance process and had yet to be finalised and approved. We note that Cabinet reviewed the business cases on 30 October and final review and approval is scheduled for 13 November 2018.
3. Other sources of evidence	**Consideration of the CIPFA report**	The review by CIPFA into Surrey County Council Finance concluded that there was an urgency in the need to build financial resilience in Surrey County Council. It concluded that 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. CIPFA stated that the Council no longer had the option of putting off change in the hope that circumstances might change. It noted that a series of transformative projects are being developed and the final business cases were to be presented to Cabinet in October 2018. The report's authors concluded that the plans are still at too early a stage, however, for CIPFA to assess the likelihood that they will deliver the efficiency savings required in 2019-20 and 2020-21. This remains the case at the point of this review, although we note the progress that has been made since July to finalise the business cases. In regard to the finance team's ability to deliver the change at the pace required it concluded that there were a number of strengths in Surrey's Finance team. The team was experienced and understands the work of the Council very well. CIPFA also recognised that the financial information produced needed to improve to assist decision making and financial monitoring. It also noted that the Finance team operated 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. We note that since this report, the Council has taken steps to clarify budget responsibility and accountability, with the onus on service budget holders to drive change. It is too early for these changes to have fully embedded and for us to assess the impact of this, however we note the prompt action taken by the Council in this regard.

Appendix 1 – Audit Opinion as issued

The wording below is from the audit opinion issued on 28 September 2018 following completion of the VFM work for 2017/18. It also includes the audit opinion on the Council's financial statements for the year, which was originally issued on 31 July 2018.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SURREY COUNTY COUNCIL (the "Authority")

Issue of audit opinion on the financial statements

In our audit report for the year ended 31 March 2018 issued on 31 July 2018 we reported that, in our opinion the financial statements:
give a true and fair view of the financial position of the group and of the Authority as at 31 March 2018 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
had been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
had been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Issue of audit opinion on the pension fund financial statements

In our audit report for the year ended 31 March 2018 issued on 31 July 2018 we reported that, in our opinion the pension fund financial statements:
give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and of the amount and disposition at that date of the fund's assets and liabilities;
had been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
had been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Adverse conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are not satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Appendix 1 – Audit Opinion (Cont'd)

Basis for adverse conclusion
In considering the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources we identified the following matters:

Children's Services
In June 2015 Ofsted published a report on services for children in need of help and protection, children looked after and care leavers in Surrey, based on their inspection visit in November 2014. The overall judgement was that children's services were inadequate.

Ofsted subsequently issued a follow-up report in May 2018 based on their February 2018 inspection visit, in which the inadequate rating remained in place. Ofsted stated in the report that "Senior leaders and elected members in Surrey have been far too slow to accept and act on the findings and recommendations of the 2014 inspection, and to respond with the required urgency to the findings of several subsequent monitoring visits. Too many of the most vulnerable children in the county are being left exposed to continuing harm for long periods of time before decisive protective actions are taken".

This matter is evidence of weaknesses in proper arrangement for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management and planning, organising and developing the workforce effectively to deliver strategic priorities.

Sustainable resource deployment
The Authority is drawing heavily on its reserves to balance its annual budgets and cannot set a sustainable budget with sufficient capacity to absorb emerging cost pressures with its current levels of income and funding.

The Authority used £11 million of its usable reserves to balance its budget in 2017/18 and, at 31 March 2018 usable reserves, stood at £102 million. The Authority managed its financial position in year by implementing short term spending cuts, which allowed it to deliver a £1.3 million underspend for the year against budget.

The Authority engaged the Chartered Institute of Public Finance and Accountancy (CIPFA) to review the financial resilience of the Council and the effectiveness of its finance function. CIPFA reported in July 2018 that the Authority will not have sufficient reserves to meet its expected budget gap in 2019/20 unless it acts now. The report also stated that 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.

The Authority's current medium term financial plan for 2018 to 2021 requires it to deliver £250 million of savings over three years, with £66 million required in 2018/19. The Council also plans to use a further £21 million of reserves to balance the budget. The CIPFA report highlighted a lack of granularity in some of the estimated pressures and changes facing the Authority, and considerable uncertainties over the delivery of a number of the planned savings.

These matters are evidence of weaknesses in proper arrangements for securing sustainable resource deployment in planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

Appendix 1 – Audit Opinion (Cont'd)

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Delayed Certificate

In our report dated 31 July 2018, we explained that we could not formally conclude the audit on that date until:
we had completed our work to give our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources;
we had on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts; and
we had completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement.

We have now completed our work to give our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

We have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement.

No matters have come to our attention since 31 July 2018 that would have a material impact on the financial statements on which we gave an unqualified opinion.

Appendix 1 – Audit Opinion (Cont'd)

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2018. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

We are satisfied that this outstanding matter does not have a material effect on the financial statements.

Ciaran McLaughlin

Ciaran McLaughlin
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

30 Finsbury Square
London
EC2P 2YU

28 September 2018

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