

DRAFT ANNUAL GOVERNANCE STATEMENT 2018/19

Surrey County Council has a responsibility for ensuring that its business is conducted in accordance with the law and proper standards, that there is a sound system of governance, appropriate controls are in place and that public money is safeguarded and properly accounted for. This Annual Governance Statement describes the key activities during 2018/19, progress against key issues raised in last year's governance review, summarises the main elements of the council's governance framework and identifies key areas of focus for 2019/20.

Context

In early 2018 the council appointed a new Chief Executive, Joanna Killian, who put in place a new leadership structure and appointed to a number of new Executive Director roles during the year, adding much needed senior capacity and capabilities. A new leader, Councillor Tim Oliver, was elected later in the year, and he put in place a new Cabinet, creating a new role of Cabinet Member for Finance.

Recognising the need for a different organisational culture, which is open and honest about where improvements are required, the priority for the new leadership team is to put in place and deliver a significant programme of transformational change. Over the next 3-5 years, the focus is to address a number of performance and financial issues. There is a need to develop a more sustainable, effective organisation and ensure the council can deliver improved outcomes for residents, with a focus on prevention and earlier intervention. The scale of the challenge requires a new vision, revised priorities and robust control mechanisms, including significant change capacity alongside a deep culture change programme.

Transforming outcomes for children and families in Surrey is an absolute priority, with new leadership arrangements having been put in place during the year with the aim of strengthening professional practice, management oversight and providing robust assurance.

The scale and pace of the council's change programme is extremely challenging and covers all aspects of the council: how we provide services, how we operate and how we engage with our residents and partners. The key elements of the change programme include:

- An updated **vision and strategy** to reflect the changing needs and expectations of our residents;
- A council-wide **transformation programme** to reform the function, form and focus of the organisation to help deliver on our shared ambitions;
- Ensuring ongoing **financial sustainability** by minimising the use of one-off funding sources and ensuring we operate within available resources; and
- A review of our **organisational culture** to ensure that we are well equipped to deliver the scale of change required.

Vision & Strategy

A lack of clear direction and uncertainty about the future, coupled with an historic tendency to not look outside of the organisation and learn from others, meant that there was a clear need to develop a new vision, and this work was a priority in the early part of 2018/19. A new Community Vision for Surrey in 2030 (the Vision) has been endorsed, which was informed by extensive stakeholder engagement. The Vision recognises the need for, and value of, a shared set of priority outcomes across all our partners, as we collectively strive to improve the lives of everyone who lives in the county.



The council has developed an integrated suite of plans to support its vision:

- An **Organisation Strategy** that sets out how the council will work with residents and partners and direct resources to where they will have the most impact.
- A **Financial Strategy** that sets out the overall framework within which the council will manage its financial resources.
- The '**Our People 2021**' strategy sets out how we will develop our capacity and capability, drive transformational change and create a high performance culture.

Transformation

The council also agreed a Transformation Programme, shaped around six thematic areas, which will reform the function, form and focus of the organisation to help us deliver the Vision.

At the heart of the transformation programme is the need to develop very different service models and approaches that can help prevent problems escalating and better support residents and communities to be independent. In addition the transformation programme includes a number of projects which are critical to embedding the Target Operating Model (TOM) design principles, which are guiding how we develop and change our services and ways of working to ensure we become a responsive, modern and effective organisation.

Transformation on this scale represents a complex challenge for the council and it is vital that our residents and stakeholders have their say on proposed changes. Proposals for the re-design of the first phase of service transformation have been developed and extensive consultation and engagement has been carried out with a range of stakeholders using public consultations, surveys and face to face discussions.

It is vital that the governance arrangements in place to monitor the effectiveness and track delivery of the transformation programme are robust. Two boards have been established, a member-led Change Management Board which sets the overall direction and priorities, and an officer-led Transformation Steering Board, which monitors delivery and ensures alignment across the wider change agenda. These Boards will collectively work together to deliver the change and ensure the council continues to evolve and develop over time.

Whilst there is a current defined set of projects and programmes to deliver, we will need to keep reviewing our progress and re-assessing our plans and priorities, responding to the new

opportunities that will emerge through closer working with our partners and residents, new legislation, and technological advances. A Director of Transformation has recently been appointed to lead the Transformation Support Unit and work with the Corporate Leadership Team and Cabinet on the transformation agenda. As one of her early actions she has carried out a lessons learnt review to identify actions to strengthen programme management. The outcome from this review will be used by the Leadership Team to shape future transformation projects.

Financial Sustainability

During the year, the strength of the council's finances, and the arrangements for managing them, were highlighted as areas of concern in external reviews.

The council's External Auditors' 2017/18 report on value for money, published in December 2018, gave a qualified conclusion: *'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'*. This was due to the continued rating of the council's Children's Services as 'Inadequate' by Ofsted and a failure to demonstrate sustainable deployment of resources, as evidenced by a continued use of reserves to balance the budget in successive years.

In May 2018 the council commissioned the Chartered Institute of Public Finance and Accountancy (CIPFA) to undertake a review of the council's finances and finance function. The review concluded that the council faced a significant budget shortfall and needed to fundamentally reengineer its financial management arrangements, both within the Finance function and across the organisation. The Finance function needed to reform its impact, capacity and capability as well as introduce new practices across the organisation. In order to enable the organisation to achieve transformational efficiencies, the Finance function recognised that it first needed to modernise itself.

A new interim Executive Director of Finance commenced in September 2018 and set up a two year Finance Improvement Programme. This included the review of the Finance function TOM and the enablement of a culture of financial discipline and accountability across the organisation that will meet the future needs of the council. An enhanced learning and development programme aimed at increasing financial management capability both within Finance and across the organisation, will be introduced during 2019/20.

Early in 2018/19, the council's finances were placed under significant strain as a result of an increasing level of overspend in relation to Special Educational Needs. It also became clear that pressure was beginning to grow in other services. Against this challenging backdrop, there was also a recognition that there needed to be a strategy that reduced the reliance on reserves. As a result, in September 2018, Cabinet agreed additional in-year savings of £40m, bringing the target in the year to £106m.

Responding to the worsening in-year position and the findings from CIPFA's review, during the summer, the council restated its fundamental principles of strategic budget setting and financial management accountability. This included a change in approach to setting the budget for 2019/20. In November 2018, the council published the draft budget strategy, the 'Preliminary Financial Strategy'. This set out, much earlier than in previous years, the council's plans to achieve financial sustainability and without relying on reserves to balance the budget.

The Preliminary Financial Strategy included a set of guiding principles and priorities and the use of a 'budget envelope' approach to strengthen financial management and focus accountability on budget holders. This 'budget envelope' framework emphasised the fundamental importance of budget managers' responsibility of delivering within available resources whilst identifying solutions to

financial challenges. These principles include a move away from one-off funding sources to setting a balanced budget as well as removing the use of reserves.

Starting the budget process earlier enabled us to better plan for the future and carry out extensive engagement and consultation with residents and stakeholders. The outcomes of the consultation was considered by Cabinet in January 2019 in a draft budget, in advance of setting the final budget and council tax which was approved by County Council in February 2019.

For 2019/20, all of the council's budget managers are required to sign a Budget Accountability Statement (BAS), confirming acceptance of their budget management responsibilities and the requirement to deliver service objectives within their envelope. The Financial Regulations were also reviewed and updated to reflect the council's financial environment and the requirements of the BAS. A number of budget meetings have been established to kick-off the financial year with the Cabinet Member for Finance, his Cabinet colleagues and senior officers, focussing on key areas of council spend to ensure everyone is aware of their budgetary responsibilities. Discussing the deliverability of the savings plan in each Service is a cornerstone of these meetings.

The positive change in the financial performance of the council in 2018/19, as a result of the identification and delivery of in-year management actions, gives greater confidence in the ability to deliver significant savings targets in 2019/20 than has been the case in previous years. It also demonstrates the ability of the council to be flexible and react to changing circumstances to protect its financial position. Whilst these are positive developments, the level of risk contained in the 2019/20 budget proposals should not be underestimated and the target of £82m will be challenging to deliver. The council is developing a mechanism to ensure it closely tracks, monitors and reports the actions to achieve the required £82m of ongoing savings and monitor and manage the risks.

Budget planning for the medium-term continues to require significant savings to be identified and delivered. Financial sustainability continues to be both a challenge and a focus for the council. The level of transformation required to achieve ongoing resilience is achievable, but does require the council to make some rapid and tough decisions.

Organisational Culture

In recognition that the council's culture is central to the transformation agenda, a fundamental review was led by organisational consultants, Linguistic Landscapes, which focused on discovering our 'unwritten rules'. Their work identified a series of cultural characteristics that could, if left unchecked, make it more difficult to achieve the council's ambitions and to operate in the interests of our residents.

Some of the negative characteristics identified included poor cross team working, a lack of willingness to learn or seek best practice from elsewhere, as well as a need to address perceptions by others that we are difficult to work with. Linguistic Landscapes helped us become more aware of our culture and has given us some practical working principles to help us consciously align our culture to our strategy.



We continue to engage with colleagues across the organisation to develop our organisational culture, behaviours and values, supported by revised pay and reward mechanisms and a new style of performance reviews.

Service specific governance considerations:

In addition to the organisation wide areas discussed above, there are some service specific governance arrangements to consider:

Children's Services

The council, with its partners, is going through a process of major change in response to two consecutive Ofsted ratings of 'Inadequate' and the organisation's own acknowledgement that improving outcomes for our most vulnerable children had not been prioritised in the past. The Department for Education appointed an external Commissioner in June 2018 and his final recommendations will be published in September 2019. Services for children and families are being transformed at pace with a much needed focus on quality and consistency of practice and the first stage of the improvement programme will conclude in April 2019. A new organisational structure, underpinned by reformed practice models, focussed use of resources, early intervention principles and leadership from an experienced group of professionals, are key components of our new, best practice approach.

The biggest single challenge will be recruiting quality front line staff in sufficient numbers. There are advanced plans in place to develop recruitment strategies that will deliver a permanent workforce. These are underpinned by the Surrey Children's Services Academy, launched in January 2019, which will support colleagues who work with families to drive up standards of practice and partnership working. The Academy is something of a national first in terms of the scale of partnership involved, bringing together all the learning and development across all the services and agencies working with children and young people. The improvement journey is likely to take three to four years.

Key initiatives to achieving a sustainable model for our Children's Services also include a strategy to reduce costly out-of-county placements for children in care and the Special Educational Needs and Disability (SEND) programme which places a much greater emphasis on early intervention and prevention.

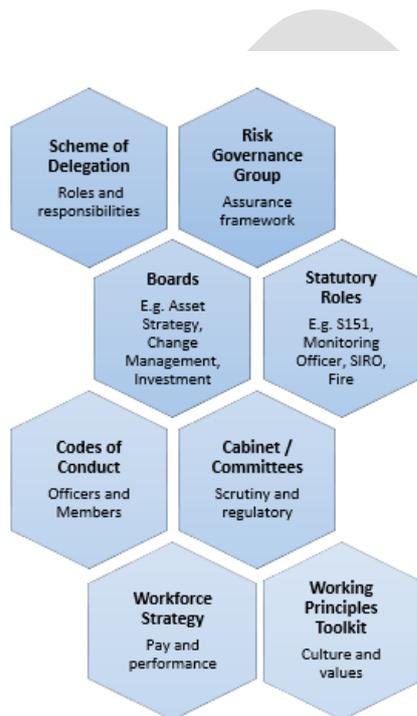
Health

The health and care system in Surrey is complex, with a complicated governance architecture across multiple NHS partnership boundaries, (and a resultant large number of meetings needing attendance and servicing) which have contributed to making working towards closer integration between the County and the NHS challenging.

However, during 2018/19 the council has continued to progress work with NHS partners to integrate health and social care. Commissioning arrangements established under the Surrey Heartlands devolution agreement (Joint Commissioning Committee) have evolved with a Surrey-wide decision-making forum being established and due to meet for the first time in June 2019. A review of the Surrey Health and Wellbeing Board has also been concluded in 2018/19, aligned to the new Surrey Health and Wellbeing Strategy, resulting in a revised membership drawn from a wider range of organisations to reflect a stronger focus on the wider determinants of health and improving health outcomes for residents.

Waste Private Finance Initiative (PFI)

The council has a waste PFI contract through which it manages the recycling and disposal of waste, and develops and operates waste infrastructure. The contract attracts government grant (PFI credits) over its 25 year term, currently £2m per year, and due to increase once the Eco Park has been delivered. Completion of the Eco Park is currently delayed, which has a number of implications including changes in the timing and level of costs. The council is currently assessing available options on the future of the waste contract to allow an informed decision to be made.



Governance Framework

The diagram shows some of the key parts of the council's governance framework that support good governance and help to us to do things in the right way, for the right people in a timely, open, honest and accountable way.

A review of the council's key democratic decision making processes and scrutiny arrangements is taking place that will ensure there is transparency and strong engagement on key issues and decisions that impact residents and communities

The project will make changes that strengthen the role and impact of all Members and ensure that decision making within the council is based on effective engagement with residents and partners

Compliance & Risk

The council's financial management arrangements during 2018/19 fully complied with CIPFA's Statement on the Role of the Chief Finance Officer (CIPFA, 2010). The previous Director of Finance and the current interim Executive Director of Finance met their financial responsibilities during the year and ensured financial management arrangements were in place. They reported directly to the

Chief Executive and had regular contact with the Leader and key Members, Monitoring Officer, Chief Internal Auditor, External Auditor and other Executive Directors.

The council's strategic risk arrangements have now been refreshed and a new Strategic risk register is in place, which will be continually developed and form part of the overall performance monitoring framework.

The Chief Internal Auditor has provided partial assurance that the council had in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2018 to 31 March 2019. In reaching that view he has explained that the results of internal audit activities during the year resulted in a number of partial or minimal audit opinions being issued, some of which are potentially significant. Where the need for improvements in control have been identified, Internal Audit has not always seen sufficient evidence that management have taken appropriate remedial action in a timely manner.

The Chief Internal Auditor has, however, recognised that significant effort is now being made by the organisation to strengthen governance, risk management and internal control, with major transformational programmes commenced during the year. Whilst these are still in development, with the major impacts likely to begin materialising during 2019/20, he has seen clear evidence of a commitment from management and Members to secure improvement. The direction of travel is therefore positive and something which internal audit will monitor over the year ahead.

Performance Reporting

An effective corporate performance monitoring system has not been in place for a number of years. Our Business Planning and Performance Management Framework is being updated to ensure we can track and understand the impact of our people, projects and programmes for our residents. A new system is being put in place during 2019/20 and will include:

- A new Vital Signs Report – quarterly reporting to the Corporate Leadership Team and Cabinet on key performance indicators;
- Reporting to residents – covering high level outcome measures on Surrey County Council's contribution to the Surrey 2030 Community Vision;
- Outcome Delivery Plans – these will be short documents covering critical activity and delivery against the 10 strategic outcomes in the Organisation Strategy;
- A new approach to staff performance management in the shape of "Performance Conversations", designed to create a strong positive performance culture across the organisation. This is supplemented by more robust accountability arrangements for the Chief Executive and Corporate Leadership Team in the form of "performance contracts", which clearly set out the role each individual has in achieving the council's priorities;
- A new scrutiny model.

A new corporate Insight, Analytics and Intelligence team was formed at the end of 2018/19 which will provide greater leadership around the council's performance management framework, and is leading on the development of a community of practice for business intelligence across the council.

A new Performance Intelligence Service has also been established within the Children's, Families, Education and Lifelong Learning directorate. A significant number of dashboards have been developed through a visualisation tool (Tableau) that enables 'near live' performance reporting and gives managers access to information that can be viewed at an individual child level, as well as by team, services, area and countywide performance. This will enable the service to intervene and take any appropriate action on a timely basis. Some specific examples of performance improvement include the timeliness of Initial Child Protection Conferences, Health Assessments for Looked after

Children and the recording of management oversight and case supervision. These are key indicators to help provide an overview that the 'pulse' of the directorate is healthy and that outcomes for children are at the heart of the work undertaken.

Conclusion

This past year has seen an intense period of change for the council. Whilst we will see further progress on our transformation plans we have stabilised the organisation and now need to move into an intensive phase of operational delivery, with confidence that our plans will translate into better outcomes as well as offering good financial value for our residents. We recognise that robust governance must be in place to ensure that public money is safeguarded and services are delivered effectively to residents. We will continue to strengthen arrangements to deliver our Vision that Surrey residents' money is being spent, wisely and securely, and that no one is left behind.

The challenges ahead are not to be underestimated, however the work to date has embedded the foundations for longer term change and continuous improvement in the best interests of our residents.

2017/18 Annual Governance Statement Action Plan – Follow Up

Issue identified in 2017/18	Action taken during 2018/19
<p>Budget Accountability Increasing financial challenge requires a stronger and more robust control framework of tracking and monitoring savings, pressures and the overall budget throughout the year.</p>	<p>Budget Accountability Statements have been put in place for all accountable budget holders. The need for in year management actions was identified and appropriate action taken to reduce the projected overspend and negate the need for the use of reserves to balance the budget.</p> <p>Despite this, the council continues to face significant financial challenges.</p>
<p>Financial Sustainability Significant levels of savings to be achieved and ongoing use of reserves to balance to budget.</p>	<p>2019/20 budget was set without use of reserves.</p> <p>Major transformation programme initiated with governance Boards in place.</p> <p>Need to develop more robust savings monitoring process to ensure cost drivers and impact of activity is understood.</p>
<p>Children's Services Governance arrangements have not had sufficient impact or provided sufficient oversight to deliver safe outcomes for children and families.</p>	<p>Ofsted Priority Action Board established in September 2018 to oversee delivery of the Children's Improvement Plan, now independently chaired with representatives from the Department for Education, Children's Commissioner, police, health, education and 3rd sector.</p> <p>Regular reporting to Cabinet on the improvements to children's services.</p>
<p>Learning Disability Services Ensuring that ways of working are improved to manage demand and enable better outcomes.</p>	<p>All Age Learning Disabilities transformation project in place across Children's and Adults.</p>

Issue identified in 2017/18	Action taken during 2018/19
<p>Assessing and approving care packages Internal audit to carry out a review of mechanisms and controls in place for assessing and approving care packages and accurately forecasting future costs, in both Children's and Adults Services.</p>	<p>Children's Services: The audit provided an opinion of Minimal Assurance and identified a significant number of control weaknesses across the process for care package assessment and approval. A detailed set of actions were agreed with management, and a follow-up audit is due in Q1 of 2019/20 in order to assess progress made. The audit has been called in for scrutiny by the Children and Education Select Committee, which will also receive a copy of the follow-up review.</p> <p>Adults: The audit identified appropriate controls and processes were in place and operating as expected for care package assessments in Adult Services. Whilst a number of lower priority actions were agreed, the overall opinion given was Reasonable Assurance. Progress against agreed actions will be monitored by Internal Audit through ongoing action tracking.</p>
<p>Compliance culture Need to reinforce and support a culture of compliance through appropriate information, communication and training.</p>	<p>A Financial Management Partnership Agreement, including roles and responsibilities, and a supporting learning and development plan is being developed as part of the Finance Improvement Programme.</p>
<p>Financial Regulations Fundamental review of Financial Regulations is required.</p>	<p>Financial Regulations were reviewed and updated in October 2018.</p>
<p>Risk Management Leadership risk register requires a review.</p>	<p>A new strategic risk register is in place.</p>
<p>Financial Management CIPFA has been commissioned to carry out a review of the financial capacity and capability of the finance function across the organisation.</p>	<p>The conclusions of the CIPFA review have been used to develop and implement a 2 year Finance Improvement Programme targeted at improving the financial management capabilities across the organisation and ensuring the finance service is fit to meet the future requirements of the organisation.</p>
<p>Head of Legal and Democratic Services vacancy Following the retirement of the Head of Legal and Democratic Services, the role needs to be appointed to permanently.</p>	<p>An interim Director of Law and Governance is in place following unsuccessful permanent recruitment.</p>

2018/19 Improvement Plan

Issue identified during 2018/19	Action being taken during 2019/20
<p>Financial Sustainability Significant level of risk in the 2019/20 budget, including challenging savings targets.</p>	<p>We have established a balanced budget for 2019/20 including £82M of savings to be delivered by services. To ensure their delivery, all plans are being underpinned by detailed activities, costs and benefits. This information will be reported monthly to the Corporate Leadership Team and Cabinet, with remedial actions where off plan. There are also a series of meetings which the Cabinet Member for Finance will be leading across all service areas, including his Cabinet colleagues and senior officers, to undertake a detailed review of all 19/20 budgets and associated risks. All budget holders have been asked to sign-off their budgets and savings targets for 2019/20, most of which have now been signed with the rest to be completed by the end of the April.</p>
<p>Organisational Culture Ensure the organisational culture is aligned to our strategy.</p>	<p>Embed the Linguistic Landscape toolkit, supported by our values.</p>
<p>Children's Services Major change in response to two consecutive Ofsted ratings of 'Inadequate.'</p>	<p>Continue to deliver against the Children's Improvement Plan with regular progress reports to Cabinet and the Ofsted Priority Action Board. Transition from Local Safeguarding Children's Board to Safeguarding Partnership from September 2019. Priorities for the 2019-2020 year include; developing our managers with greater investment in training and support; improve supervision and focus on staff wellbeing; improve frontline outcome-focussed practice; develop deep and productive relationships with partners; ensure technology, resources and systems support the work of practitioners.</p>
<p>Decision Making Ensure transparency and strong engagement on key issues and decisions.</p>	<p>Review and update the council's key democratic decision making processes and scrutiny arrangements.</p>
<p>Performance Reporting Lack of council performance monitoring.</p>	<p>Ensure we have the data and insight required to drive effective decision making, improvement, service design, through a new performance reporting framework.</p>
<p>Partnerships Progressing the Vision for Surrey ambition of closer working with our partners</p>	<p>Strengthen partnership working across the county and streamline partnership governance to make it easier to navigate. Work with our districts and boroughs to create new locality partnerships.</p>

Issue identified during 2018/19	Action being taken during 2019/20
	Strengthen relationships with partners through the Executive Director of Transformation, Partnerships and Prosperity.
<p>Property & Assets Improve capacity and capability of property services in line with recommendations from external review.</p>	An Asset & Place Strategy is being developed to address the Council’s failing to optimise the use of its Land assets. The Property function is being revamped with the introduction of new leadership, a new structure and ways of working
<p>Corporate Resource Capacity Recognise the need for more/improved corporate resources to support the organisation through period of significant change?</p>	The Council has been hampered by a back office which is ineffective and not fully fit for purpose. As well as embarking on a transformation journey for the Council’s front-line services, improvements are also being undertaken to all the corporate areas and these are at varying stages of implementation.
<p>Agile Workforce Need to ensure clear contribution of the Agile workforce transformation project to deliver core business objectives and to the savings they could enable.</p>	Re-define the scope of the Agile Workforce transformation project to ensure alignment with the Closer to Residents project, recognising the dependency of this project on an agile workforce. Need to utilise the opportunity to maximise potential savings opportunities.

Leader of the Council

June 2019

Chief Executive

June 2019

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