Grant Thornton

Review of the Council's Arrangements for Securing Financial Resilience for Surrey County Council

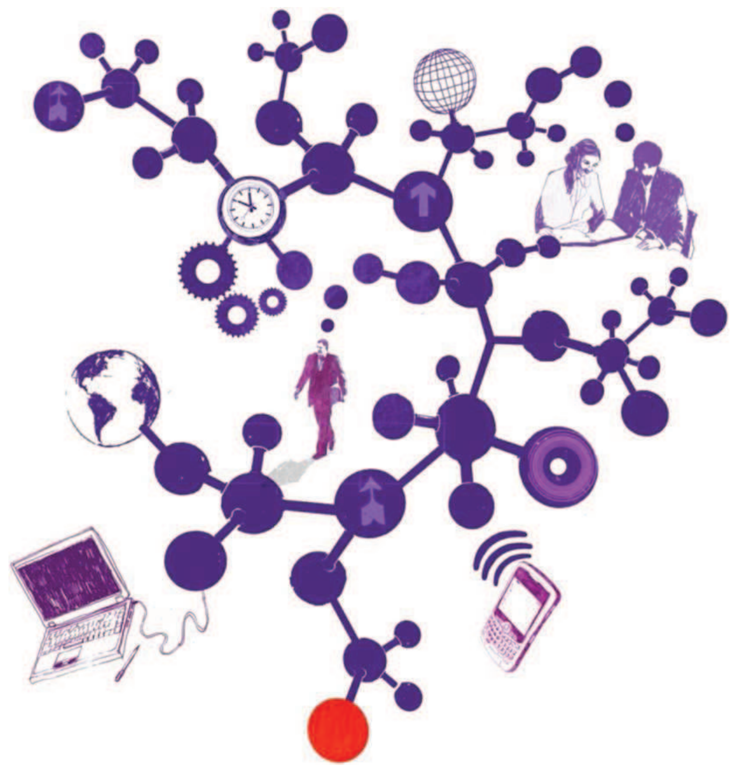
Year ended 31 March 2013

20 August 2013

Andy Mack
Engagement Lead
T 0207 728 3299
E Andy.L.Mack@uk.gt.com

Guy Clifton
National VFM - Advisory Lead
T 0207 383 5100
E Guy.Clifton@uk.gt.com

Daniel Woodcock
Assistant Manager
T 01293 554 122
E Daniel.Woodcock@uk.gt.com



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

Contents

© 2013 Grant Thornton UK LLP |

© 2013 Grant Thornton UK LLP |

Executive Summary

Our approach

Value for Money Conclusion

Our work supporting our Value for Money (VfM) conclusion, as part of the statutory external audit, includes a review to determine if the Council has proper arrangements in place for securing financial resilience.

In so doing we have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. We have carried out our work in discussion and agreement with officers and completed it in such a way as to minimise disruption to them.

The definition of foreseeable future for the purposes of this financial resilience review is 12 months from the date of this report.

We have reviewed the financial resilience of the Council by looking at:

- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control.

Further detail on each of these areas is provided in the sections of the report that follow.

In determining the Value for Money Conclusion, we are only able to conclude that the Council's arrangements are either inadequate or adequate.

Our overall conclusion is that whilst the Council faces some significant risks and challenges during 2013-14 and beyond, its current arrangements for achieving financial resilience are adequate.

This report needs to read in context that 2012-13 is the second year of the four-year Spending Review (SR10) period, where some of the potential risks and challenges over the medium term have yet to materialise. Our assessment may change in future years, although we would note the Council has systems in place to help address future challenges.

We have used a red-amber-green (RAG) rating with the following definitions.

Green	**Arrangements meet or exceed adequate standards**. Adequate arrangements identified and key characteristics of good practice appear to be in place.
Amber	**Potential risks and-or weaknesses**. Adequate arrangements and characteristics are in place in some respects, but not all. Evidence that the Council is taking forward areas where arrangements need to be strengthened.
Red	**High risk**: The Council's arrangements are generally inadequate or may have a high risk of not succeeding

© 2013 Grant Thornton UK LLP |

Executive Summary

National and Local Context

National Context

The Chancellor of the Exchequer announced the current Spending Review (SR10) to Parliament on 20 October 2010. SR10 represented the largest reductions in public spending since the 1920s. Revenue funding to local government was to reduce by 19% by 2014-15 (excluding schools, fire and police). After allowing for inflation, this equates to a 28% reduction in real terms, with local government facing some of the largest cuts in the public sector. In addition, local government funding reductions were frontloaded, with 8% cash reductions in 2011-12. This followed a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007.

The Chancellor of the Exchequer, in his Autumn Statement in November 2011, announced further public spending reductions of 0.9% in real terms in both 2015-16 and 2016-17. In his Autumn Statement on 5 December 2012, the Chancellor reinforced austerity measures announcing a further £6.6bn of savings during 2013-14 and 2014-15. Whilst health and schools will be continue to be protected in line with the Government's policy set out in SR10, local government will continue to face significant funding reductions. The Department for Communities and Local Government will contribute £470m of these additional savings, £445m of which will come from local authority funding during 2014-15, with local authorities being exempt from additional savings in 2013-14. In his March 2013 Budget the Chancellor announced a further departmental 1% saving during 2013-14 and 2014-15. The NHS and schools remain protected, but police and local government will need to find an additional 0.5% over both years.

The next spending round period, 2015-16 (SR13), was announced by the Chancellor on 26 June 2013. Local government will face a further 10% funding reduction for this period.

The funding reductions come at a time when demographic and recession based factors are increasing demand for some services, and there is a decreasing demand for some services, such as car parking, where customers pay a fee or charge.

Financial austerity is expected to continue until at least 2017.

Local Context

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

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

A challenging savings programme is in place, with plans to deliver savings of £250m in the five years to March 2018. The Council has already achieved savings of £195m in the past three years. In addition to this the Council is forecasting increasing demand for services, particularly in the areas of Adult Social Care and Schools.

The Council is highly constrained with regards to raising funding because 79p in every £1 of the net budget requirement comes from council tax . As a result of this, the Council took the decision for both 2012-13 and 2013-14 to decline the Council Tax Freeze Grant on the basis of avoiding an on-going funding gap.

© 2013 Grant Thornton UK LLP |

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Performance	• The Council has reduced its minimum cash balance through the repayment of a £68m loan that falls due in September 2013. This is to maximise the benefit of unprecedented low interest rates and the Council's cash balances and it is this transfer from long term to short term borrowing that has caused the reduction in the working capital ratio for the year. • The Council holds comparatively high level of usable reserves as a result of the strategic aim of having low levels of borrowing. • As at March 2013 the average sickness absence was 7.2 days per full time equivalent (FTE). This is below the public sector and local government average. • The Council achieved a positive outturn of £3.1m against its revenue budget in 2012-13 and overspent by£2.7m on its capital budget of £155.9m. For 2012-13 the Council had a savings target of £71.1m, which was set out in its Medium Term Financial Plan (MTFP). At the end of 2012-13 £66.0m of these were achieved, leaving a shortfall of £5.1m, although the MTFP included a prudent risk contingency that fully covered this possibility. • In 2012-13 the Council did not spend £12.5m of its allocated Dedicated Schools Grant compared with £12.8m in 2011-12. However, £7m of the above has already been committed to support in schools budgets in 2013-14. • As at 31 March 2013 the Council has a net liability of £39.2m, which is mainly caused by a long-term pension liability of £1,071m (of which £442.6m relates to the Firefighters' pension liability). The Pension Fund is to be revalued in 2013-14 to reflect the results of the actuarial triennial review. The Council have already planned for increased contributions to reflect their expectations.	Green
Strategic Financial Planning	• The Council has considered all of the areas we would expect in setting the 2013-14 budget and updating its MTFP, including the update for Council Tax and Business Rate changes, estimates for the 2013 Spending Round and changes in service demand, in particular for Schools, caused by increasing migration and pupil numbers, and Adult Social Care, caused by the organisational changes to the NHS resulting in potential variances in the interpretation of what meets the definition of Social Care treatment. • As a result of the planned increase in demand for school places, the Council have planned for total capital expenditure to 2018 to increase by £130m to £370m at current forecasts. • The MTFP is closely linked to both the annual budget and other key strategic plans. • The Council has already identified schemes to reflect the majority of savings required, but as at March 2013 £79m of savings are still to be to 2017-18. The Council recognises the fact that recurrent savings will become more difficult to identify throughout the mid-term but aims to achieve the target through service transformation, particularly in the area of Adult Social Care. • Due to the delay in the completion of the Waste Eco-Park, the Council have prudently planned for the impact of this on the timing of cash-flows related to the project.	Green

© 2013 Grant Thornton UK LLP |

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Financial Governance	• Following the recommendations made in the Financial Management Public Value Review, budget managers are being trained on using the finance system and self-service reporting has been developed. The Council is progressing a cultural shift so that all managers have clear ownership of their financial responsibilities. As with any initiative requiring behavioural change, it will take time to fully embed. • There remains an appropriate level of senior manager and member level engagement in the financial management process. One area of particular good practice is the publication of an attractive and easy to read Annual Report as soon as the Council's outturn position is known. • Issues affecting the current and forecast outturn position are described at both a summary and service level in relation to revenue budgets, which are produced within three weeks of the month-end. The Council does not report the cash-flow forecast-beyond year-end within the budget monitoring reports, but this is compensated through the Treasury Management reporting and quarterly review of the MTFP position. • The information provided to members is complete, accurate and reliable. Members regularly challenge senior officers and ensure progress has been made against recommendations. • Going forward, the Council is currently implementing a new financial dashboard that will allow officers to review the income and expenditure position in real time and drill-down to the level of detail they require quickly and easily. This is expected to be completed in Summer 2013.	Green
Financial Control	• The key budget setting principles underpinning the development of service budgets are that budgets are based upon predicted activity levels rather than incremental budgeting, are owned by the services, reflect projected expenditure and directly managed income and take account of agreed savings plans. The Council no longer completes standalone annual budgets but five-year budgets from which annual budgets are set and this means the in-year budgets are more reliable. • During 2012-13, the Council achieved recurrent savings of £66m against a target of £71m, although countervailing savings ensured that an overall revenue underspend was achieved in-year. • Internal Audit have reviewed all of the key financial systems in 2012-13 and determined that there are some areas that need "some improvement". We do not consider that these areas represent material weaknesses. • The Council performed a Public Value Review on financial management in 2011. A recommendation was made in relation to realigning the structure of the finance department with the Finance Vision and the Council have since restructured the finance department, including shared services, in order to meet that recommendation.	Green

© 2013 Grant Thornton UK LLP |

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Key Indicators of Financial Performance	• The Council should continue to review the appropriateness of reserve levels and monitor its liquidity to ensure financial resilience is maintained.	CFO	Feb 2014	Reserves are reviewed on an on-going basis (most recently at July Cabinet 2013 where Cabinet decided that the Severe Weather Reserve of £5m be used to tackle damaged roads during 2013/14. Reserves will be further reviewed as part of the MTFP (2014-19) process.
	• As at 31 March 2013 the Council's balance sheet shows a net liability of £39m, caused by an increase in the long term pension liability of £134m. We do not consider this to be a significant risk to the Council in the medium term, but is something that should be considered as part of long-term planning.	CFO	Feb 2014	The pension fund's actuary is currently undertaking the triennial review. This will recommend contribution rates and deficit reduction payments, which the council will consider as a part of the MTFP (2014-19) process
Strategic Financial Planning	• The Council will need to update the MTFP for the implications of the SR 2013 as soon as they can be identified. • The Council has already identified schemes to reflect the majority of savings required within the MTFP but as at March 2013 £79m of savings are still to be identified to 2017-18. • Due to the on-going increase in demand for school places caused by a combination of population increases and migration, the Council should continue to review the capital spend required in the mid to long-term in order to meet its statutory obligations.	CFO	July 2013	The Cabinet agreed a report on 23 July 2013 that refreshed the MTFP (2013-18) based on the latest information (including SR 2013 and further efficiencies to be delivered – i.e. part of the £79m). During summer 2013 officers will continue to work on MTFP plans in advance of further member workshops from mid-September up until the completion of MTFP (2014-19) in January 2014.
	• Going forward the Council should consider adding the consideration of Adult Social Care volume and Schools places as key risks within the relevant MTFP section, although this will not affect the level of consideration it has applied over these areas.	CFO	Sept 2013	To be reflected in S25 report in Feb 2014 budget report.

Page 351

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
	• The Council has begun to use its size and position to create better opportunities for both itself and key partners (e.g. through procurement reviews and joint ventures) and should look to increase the use of this position going forward in order to maximise value for money.	Strategic Director for Business Services	Feb 2014	In July 2013 the Cabinet agreed an Investment Strategy paper – aimed at optimising its use of assets - and an Innovation update – approving invest to save support up to 2016/17. Several services are developing alternative methods of delivery papers that are expected to seek Cabinet approval from September 2013
Financial Governance	• Following the recommendations made in the Financial Management Public Value Review, budget managers are being trained on using the finance system and self-service reporting has been developed. The Council is progressing a cultural shift so that all managers have clear ownership of their financial responsibilities. As with any initiative requiring behavioural change, it will take time to fully embed, and the Council needs to ensure that it manages the on-going impact of this cultural shift by reviewing the progress made and identifying further actions for improvement. This includes monitoring the effectiveness of the new dashboard..	CFO	On-going	The Finance dashboard went live on 1 August 2013 and a front page s-net communications strategy is planned for early September that links to the Peer Challenge campaign - promoting financial responsibility across all staff. Senior Leader and Member buy-in to the dashboard is strongly evident.
Financial Control	• During the course of our review we confirmed that countervailing savings were not always identified during the monitoring process. The Council should consider the formal reporting of this so that countervailing savings are clearly identified and their impact on service provision is better understood.	Corporate Board	Monthly (from Sept 2013)	Staring from July 2013 the monthly budget monitoring report to Cabinet highlighted ‘countervailing’ (or one off) savings separately. With effect from Sept 2013, the level of challenge and review of savings by the Corporate Board will be enhanced.

© 2013 Grant Thornton UK LLP |

© 2013 Grant Thornton UK LLP |

Key Indicators

Introduction

This section of the report includes analysis of key indicators of financial performance, benchmarked where this data is available. These indicators include:

- Working capital ratio
- Long term borrowing to tax revenue
- Long term borrowing to long term assets
- Sickness absence levels
- Out-turn against budget
- Useable Reserves: Gross Revenue Expenditure
- Schools Reserves - Balances to DSG allocations

We have used the Audit Commission's nearest neighbours benchmarking group comprising the following authorities:

Buckinghamshire County Council
Cambridgeshire County Council
Devon County Council
Dorset County Council
East Sussex County Council
Essex County Council
Gloucestershire County Council
Hampshire County Council
Hertfordshire County Council
Kent County Council
Leicestershire County Council
Oxfordshire County Council
Warwickshire County Council
West Sussex County Council
Worcestershire County Council

© 2013 Grant Thornton UK LLP |

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Liquidity	• The Council's working capital ratio has reduced from 1.71 in 2007-08 to 1.48 in 2011-12, with decreases every year except 2010-11 and 2011-12. The ratio showed a much steeper decline for the Council than for its statistical nearest neighbours, reaching a low of 0.76 in 2009-10, before returning close to the average of 1.5 in 2011-12. The Council ranks 7th out of 16 for this period. • Net current assets decreased by £72m from 2008-09 to 2009-10. The cash - short tem investment balance decreased by £130m due to the repayment of borrowing. £89m of this was a planned repayment and so the decrease in current assets (cash - investments) is offset by a corresponding decrease in current liabilities (short-term borrowing) of £89m. The additional £40m decrease in cash was due to the additional early repayment of borrowing (classified on the balance sheet as long-term borrowing as this was not planned at the end of the previous year). This, added to an increase in creditors of £30m, explains the £70m decrease in net current assets from 2008-09 to 2009-10. • In 2010-11 and 2011-12 the net current asset balance increased, this was mainly due to increases in cash balances - investments which was due to capital underspends and some movements in debtors - creditors. • As at 31 March 2013, the Council's working capital ratio is 1.18 • The Council has reduced its minimum cash balance through the repayment of a £68m loan that falls due in September 2013. This is to maximise the benefit of unprecedented low interest rates and the Council's cash balances and it is this short-term loan that has caused the reduction in the working capital ratio for the year. • The Council should continue to monitor its liquidity to ensure financial resilience is maintained.	Green
Borrowing	• The ratio of long term borrowing to long term assets is 0.18 in 2012-13 compared to 0.24 in 2011-12 and 0.23 in 2010-11 and 2009-10. • The ratio of short term borrowing to revenue is 0.05 in 2012-13 compared to 0.018 in 2011-12 and 2009-10, whilst in 2010-11 it was 0.016. The increase relates to the short-term loan to be repaid in September 2013. • The comparatively low borrowing ratios are a result of the high level of usable reserves held by the Council and the strategic aim of having low levels of borrowing.	Green
Workforce	• The Council Overview and Scrutiny Committee considered a report on sickness absence in the Adult Social Care (ASC) Directorate in April 2012 and this indicated that the Council was performing favourably against benchmarks per a 2011 national report and a 2011 CIPD survey. Targets have been set for each directorate for 2012-13 and it was indicated that achievement of the target of 7 days for ASC is especially challenging. • As part of the quarterly business reports presented to the Council Overview and Scrutiny Committee, sickness absence levels are monitored against directorate-specific and Council-wide targets, as well as against a CIPD local government benchmark. • As at March 2013 the average sickness absence was 7.2 days per FTE. This is below the public sector and local government average. In line with expectations the directorates of Adult Social Care and Children, Schools and Families were the worst performers with 9.71 and 8.31 days respectively, whilst other services such as the Chief Executive's Office perform better.	Green

© 2013 Grant Thornton UK LLP |

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Performance Against Budgets: revenue & capital	• The Council achieved an underspend of £3.1m against its revenue budget in 2012-13 excluding DSG, but including £2.5m of transfers to the 2013-14 budget and £7.9m of roll-forwards. The total positive outturn amounts to £18.1m, which compares to a positive outturn in 2011-12 of £17.1m, and £4.5m in 2010-11. • This demonstrates the presence of robust and effective financial monitoring and control on an on-going basis. • For 2012-13 the Council had a savings target of £71.1m, which was set out in its MTFP. At the end of 2012-13 £66.0m of these were achieved leaving a shortfall of £5.1m. The MTFP 2012-17 savings are long-term, recurrent savings but directorates are supporting long-term saving shortfalls with one-off savings or expenditure under spends in-year. Although this means the in-year budget is met, this increases the pressure to identify efficiencies going forward. • The Council overspent by £2.7m on its capital budget of £155.9m in 2012-13 due to bringing forward projects where it was either financially or operationally more effective to do so. This compares to underspends of £43m in 2011-12 and £31.1m in 2010-11. • This demonstrates the improvement made to capital monitoring within the Council, which followed Internal Audit recommendations being raised previously in relation to the robustness of forecasting capital spend.	Green
Reserve Balances	• As at 31 March 2013, the ratio of useable reserves to gross revenue expenditure is 0.18 compared to 0.16 in 2011-12, 0.11 in 2010-11 and 0.07 in 2009-10. • This is consistent with wider Council policy to increase reserve balances in light of continued reductions in central government funding and the future savings pressures faced. • As at 31 March 2013 the Council has a net liability of £39m (net assets of £70m as at 31 March 2012) caused by an increase in the long term pension liability of £134m. We do not consider this to be a significant risk to the Council in the medium term, but mitigating actions should be considered as part of long-term planning. • The Council should continue to monitor its reserve balances to ensure financial resilience is maintained.	Green
Schools Balances	• In 2012-13 the Council did not spend £12.5m of its allocated Dedicated Schools Grant compared with £12.8m in 2011-12, £7.4m in 2010-11 and £2.5m in 2009-10. Over the same period, the allocation of DSG from central government has increased by over £55m. However, £7m of the above has already been committed to support schools budgets in 2013-14. • Overall the Council's Schools balances to DSG allocation has remained relatively stable in recent years and is consistently slightly above average compared to its nearest statistical neighbours. • Schools overspent by £2.3m against their Devolved Formula Capital allocations where regulations allow them to spend in advance.	Green

© 2013 Grant Thornton UK LLP |

1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

Appendix - Key indicators of financial performance

© 2013 Grant Thornton UK LLP |

Strategic Financial Planning

Key characteristics of good strategic financial planning

In conducting our review of strategic financial planning we have assessed the Council's performance against the following indicators:

- Focus on achievement of corporate priorities is evident through the financial planning process. The MTFP focuses resources on priorities.
- The MTFP includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working. Targets have been set for future periods in respect of reserve balances, prudential indicators etc.
- Annual financial plans follow the longer term financial strategy.
- There is regular review of the MTFP and the assumptions made within it. The Council responds to changing circumstances and manages its financial risks.
- The Council has performed stress testing on its model using a range of economic assumptions including CSR.
- The MTFP is linked to and is consistent with other key strategies, including workforce.
- KPIs can be derived for future periods from the information included within the MTFP.

© 2013 Grant Thornton UK LLP |

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Focus of the MTFP	• The Council's revenue budget for 2012-13 was set in February 2012, along with an updated five-year medium term financial plan (MTFP) for the period 2012-13 to 2016-17. • As a consequence of the October 2010 Spending Review the Council identified, as part of the annual update of the MTFP in 2011-12, required reductions in revenue spending of £71m during 2012-13 and £122m in 2013-14. • During the 2012-13 financial planning cycle assumptions for 2013-14 to 2017-18 were revised based upon updated financial information, including the revenue underspend achieved in-year of £3.1m (excluding schools) plus roll-forwards of £7.9m. • Savings are prioritised as in previous years, and were approached strategically by the Corporate Board with the prioritised aim being improved service provision rather than purely financial savings. At the end of 2012-13 £66m of these were achieved leaving a shortfall of £5.1m, which was met in the short-term through one-off savings or expenditure under spends. • The MTFP 2012-17 set an in-year capital budget for 2012-13 of £155.9m. An in-year overspend of £2.7m has occurred due to the Council bringing forward some schemes and purchases where it has made financial sense to do so. • The main areas we would expect the Council to consider in setting the 2013-14 budget and updating the MTFP include the update for Council Tax and Business Rate changes, estimates for the 2013 Spending Review and changes in service demand, in particular for Schools and Adult Social Care. These areas have all been covered in the update to the 2013-14 to 2017-18 MTFP as demonstrated by the Council declining the Council Tax Freeze Grant and assumptions being made about an additional £33m savings being required in 2017-18.	Green
Scope of the MTFP and links to annual planning	• The Strategic Asset Management, Corporate Workforce Strategic and efficiency plans have been reviewed and are consistent with the MTFP. • The Strategic Asset Management Plan is a high level document with links to the MTFP, Property Services Public Value Review and the Corporate Strategy. • Whilst the Corporate Workforce Strategic Plan does not provide the level of detail regarding pay inflation that the MTFP includes, this is in line with expectations since the main aim of the plan is to create a link between the organisation's strategic goals identified in the corporate plan and the workforce behind meeting those objectives.	Green

Page 359

© 2013 Grant Thornton UK LLP |

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Adequacy of planning assumptions	• One of the key areas that the Council is strategically focussing on is innovative income generation in the light of reduced funding. One example of this is the ShiftSurrey scheme whereby the Council has transformed two meeting rooms into specifically innovative spaces for staff to meet and progress innovations. For the medium term the Council has assumed that income will remain relatively static with increases in Council Tax and other income balancing reductions in central funding. Whilst in the past the comparatively low central government funding has been detrimental to the Council, this now means that the reductions in central funding are having less impact at the Council than at other local government bodies. The Council has begun to consider more innovative income generating schemes within the medium term, such as lending to a Joint Venture Company to facilitate a regeneration scheme in Woking at a rate above the PWLB rate. This represents a good return for the Council and provided Woking Borough Council with the additional funding it required to complete redevelopment of its town centre. • The Council has considered inflation in two main formats. Firstly, pay inflation at an average of 2%, which is within the control of the Council and secondly for non-pay at an average of 2.2%, which is in line with current expectations. • The Council has made relatively prudent assumptions regarding potential income towards the end of the MTFP from trading companies. This is an area that the Council will need to update as it progresses towards a live company. • Prior to the formal approval of the updated MTFP, the Council completes a detailed consultation process to ensure that its strategic and operational priorities reflect the needs of the community. This is achieved through the use of SIMALTO (Simultaneous Multi-Attribute Level Trade-Off.), which presents respondents with a series of criteria and asks them where they would like to see improvements and how much they value these improvements. The main result of this was that taxpayers want more spending on highways. The Council also received a peer review during 2012-13 that was used as a benchmarking exercise and this identified no specific concerns regarding strategic priorities. • The Council has been required to vastly amend its capital projections for the 5 year period due to the increasing number of schools places required (4,000 additional places identified). This has led to a planned increased capital spend on schools from £42m to £69m in 2013-14 alone, as identified in 2010-11. The Council is currently revisiting its schools capital projections in light of this because school capital represents one of the biggest long-term financial risks to the Council at present (total capital spend to 2018 will increase by £130m to £370m at current forecasts). • The Council has already identified schemes to reflect the majority of savings required but as at 31 March 2013 £79m of savings are still to be allocated to 2017-18. This is a sector-wide issue and the Council recognises the fact that recurrent savings will become more difficult to identify throughout the medium term but aims to achieve the target through service transformation, particularly in the area of Adult Social Care. • Overall, whilst the Council has sound processes in place over the planning assumptions in relation to the capital spend on schools and the allocation of efficiency savings, the scale of the challenge facing the Council results in an amber rating.	Amber

Page 360

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Review processes	• The MTFP is constantly being reviewed in light of new data (i.e. on-going discussions over PFI credits with DEFRA in relation to the PFI Waste Scheme) and a formal update is completed on a quarterly basis. These updates consider the latest outturn financial information so that the current year position can be reviewed. This is good practice.	Green
Responsiveness of the Plan	• The Council has prepared the MTFP on the basis of downside outturns in all cases, but is in the process of reviewing these assumptions as part of the quarterly updates. The standard approach taken as part of the MTFP planning process is to start at the worst case and amend where appropriate. • The Council is optimistic about potential income generation but is relatively prudent in its consideration of this within the MTFP. Given the early stage of its position within the process of identify innovative income streams this appears an appropriate position to take. • The Council will need to ensure that the Plan remains responsive, given the scale of the savings still required, and the financial uncertainty that remains within the timeframe of the Plan. In the short term this should include the impact of the 2013 Spending Review and the impact of discussions with DEFRA regarding the Waste PFI credits. • The Council has identified a number of key risks to the MTFP being the reduction in Central Government funding, delivery of the transformational change and associated efficiencies, delivery of the waste infrastructure, and changes to health commissioning. Going forward the Council should consider adding the consideration of Adult Social Care volume and Schools places as key risks within the relevant MTFP section, although this will not affect the level of consideration they have applied over these areas. • The Council has a number of mitigating strategies in place with regards potential risks to the MTFP, with the aim of implementing long-term mitigation first , which include identifying further savings going forward, having comparatively high level of usable reserves (£289m as at 31 March 2013) and being able to roll-forward budgets from prior years. This is supported by the level of contingency reserves within the MTFP. The Council is also able to implement short-term strategies such as restricting investments, borrowing (due to having minimal borrowing in place) and being able to make one-off non-recurrent savings through the budget monitoring process.	Green

Page 361

1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

Appendix - Key indicators of financial performance

© 2013 Grant Thornton UK LLP |

Financial Governance

Key characteristics of effective financial governance

In conducting our review of financial governance we have assessed the Council's performance against the following indicators:

Understanding

- There is a clear understanding of the financial environment the Council is operating within:
  - Regular reporting to Members. Reports include detail of action planning and variance analysis etc.
  - Actions have been taken to address key risk areas.
  - Officers and managers understand the financial implications of current and alternative policies, programmes and activities.

Engagement

- There is engagement with stakeholders including budget consultations.

Monitoring and review

- There are comprehensive policies and procedures in place for Members, Officers and budget holders which clearly outline responsibilities.
- Number of internal and external recommendations overdue for implementation.
- Committees and Cabinet regularly review performance and it is subject to appropriate levels of scrutiny.
- There are effective recovery plans in place (if required).

© 2013 Grant Thornton UK LLP |

Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Understanding the Financial Environment	• The Cabinet is informed of financial matters at each meeting through the monthly budget monitoring report. • The financial regulations, including financial management responsibilities, are contained within the Revenue & Capital Financial Regulation and also disclosed within the MTFP. • A number of members have financial or business backgrounds, providing sound financial awareness on a broader scale. To assist this, specific financial training is provided as part of the annual training programme. In addition to this, officers update members on financial updates and service management teams discuss any current and potential changes that may affect their financial position. This is completed through updates such as the Political Group Briefings, monthly Council Performance Team meetings, the phased budget approach and Select Committee engagement. • The Council has a sound understanding regarding the main risks it faces and in the medium term these mainly relate to erosion of the Council's main sources of funding, delivery of the major change programmes and associated efficiencies; delivery of the waste infrastructure; and changes to health commissioning. These have been discussed in detail through the MTFP planning process including Member seminars, which are held frequently to discuss the current budget position on the MTFP and issues going forward. These seminars are jointly led by the Chief Financial Officer and CEO. • Following the recommendations made in the Financial Management Public Value Review, budget managers are being trained on using the finance system and self-service reporting has been developed. The Council is progressing a cultural shift so that all managers have clear ownership of their financial responsibilities and understand how the wider financial environment impacts on their service. • The Council's aim is proactive financial management and excellent financial decision making. • As with any initiative requiring behavioural change, it will take time to fully embed, and there will be different reactions from the staff concerned: some may see the change as an opportunity whilst others may see the change as a threat or challenge. The Council need to ensure that they manage the on-going impact of this cultural shift by reviewing the progress made and identifying further actions for improvement going forward . This is of critical importance to the Council, resulting in the amber rating, and this is an area in which we are intending to review the progress made by the Council going forward.	Amber

Page 364

Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Executive and Member Engagement	• The Strategic Director for Business Services is part of the Corporate Board. In addition to this, the CEO meets either formally or informally with the S.151 Officer and Deputy Director for Business Serevices on almost a weekly basis. • From our attendance at Audit and Governance Committee (AGC) meetings and minute review, members and officers robustly challenge and lead effectively. • There remains an appropriate level of senior manager and member level engagement in the financial management process. Stakeholder and resident understanding of the Council's financial position and budgetary pressures is facilitated by the provision of an interactive version of the Medium Term Financial Plan on the Council's website. • One area of particular good practice is the publication of an attractive and easy to read Annual Report as soon as the Council's outturn position is known. The Council's finance team won a bronze award in the 'Progress through Transparency' category at the National Improvement and Efficiency Awards in March 2012. As part of its budget setting process for 2013-14 the Council conducted a public engagement campaign in November and December 2012 in order to understand residents' service priorities and views on spending.	Green
Overview for controls over key cost categories	• As for most County Councils, the key costs for the Council relate to staffing and service provision (44% ad 42% respectively in 2012-13). These items are specifically considered within the MTFP and since budget holders are part of the budget setting process they are aware of the need to control key costs. The remaining 12% relates to central - overhead costs such as premises and supplies and services. • The Council tries to take a multi-pronged approach to controlling its key costs and this is demonstrated within Adult Social care where both unit cost reviews have taken place and £10m was invested during 2012-13 in preventative measures. These measures include the provision of social care staff in hospitals so that patients are supported to return to and remain in their own homes. • Another example is where the Council is working in partnership with other councils in the south east (such as with East Sussex regarding the provision of transactional support and IT hosting services) to identify greater efficiencies across the wider SE7 area.	Green
Budget reporting: revenue and capital	• Budget monitoring reports are presented to Cabinet monthly with year to date and forecast outturn positions at a service level within three weeks. • The analysis of each services' performance begins with a summary of the reasons for variance of the year-end position. • This provides sufficient but not excessive information to enable Cabinet to make effective decisions. This is supported by the level of narrative provided alongside the financial information to aid members who may not be from a financial background. • Going forward, the Council is currently implementing a new financial dashboard that will allow officers to review the budget position in real time and drill-down to the level of detail they require quickly and easily. This is expected to be completed in Summer 2013.	Green

Page 365

Financial Governance

Understanding and engagement

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

© 2013 Grant Thornton UK LLP |

1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

Appendix - Key indicators of financial performance

© 2013 Grant Thornton UK LLP |

Financial Control

Key characteristics of effective financial control

In conducting our review of financial control we have assessed the Council's performance against the following indicators:

Budget setting and budget monitoring

- Budgets are robust and prepared in a timely fashion.
- Budgets are monitored at an officer, member and Cabinet level and officers are held accountable for budgetary performance.
- Financial forecasting is well-developed and forecasts are subject to regular review.

Savings Plans

- Processes for identifying, delivering and monitoring savings plan schemes are robust, well thought through and effective.

Financial Systems

- Key financial systems have received satisfactory reports from internal and external audit.
- Financial systems are adequate for future needs.

Finance Department

- The capacity and capability of the Finance Department is fit for purpose.

Internal Control

- There is an effective internal audit which has the proper profile within the organisation. Agreed Internal Audit recommendations are routinely implemented in a timely manner.
- There is a an assurance framework in place which is used effectively by the Council and business risks are managed and controlled.

© 2013 Grant Thornton UK LLP |

Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Budget setting and monitoring - revenue and capital	• The key budget setting principles underpinning the development of service budgets are that budgets are based upon predicted activity levels rather than incremental budgeting, are owned by the services, reflect projected expenditure and directly managed income and take account of agreed savings plans. Historical budget issues are addressed through the budget setting process. The Council no longer completes standalone annual budgets but five-year budgets from which annual budgets are set and this means the in-year budgets are more reliable. Further to this, by using five-year budgets, virements between years can be more readily identified (i.e. capital projects spanning a number of years), meaning greater efficiency and more achievable in-year budgets. Budget holders propose a revenue budget that is sustainable for the directorate and the Council. The proposed budgets are collated and presented to Directorate Leadership Team meetings. Strategic Directors and the Chief Finance Officer are responsible for producing a budget that is within the provided cash limit. The Leader presents the budgets to Cabinet in January and Council in February each year, which forms the main part of the Council's MTFP and the Council ensures that the MTFP meets the overall Corporate Strategy. • As part of the budget setting process the Council considers a number of scenarios (e.g. the credit payments for the Waste PFI) and applies the most suitable scenario at the time. This is then updated once further information is obtained. • The Council completes a number of draft budgets throughout the process of creating the final budget, including budgets following additional face to face engagement with the business and voluntary sector, communities, and trade unions, all Member briefings at each phase and resident engagement. Once the budget is set, the actual spend is compared to the budget with explanations for variances to budget provided by each service. on a monthly basis, with a quarterly hard close process in place. Once live, the budget is only amended where new external information is received, which is considered at each quarterly update. • The Council has a strategic asset management plan that considers the balance between service provision and the impact of maintenance on revenue and capital budgets. As part of the strategy Property Services was restructured with a new management team in place and an under-pinning structure that covers the property lifecycle as 'one team'. The purpose of the restructure is to ensure that assets are managed as effectively as possible, which has been furthered through the introduction of a new Property Asset Management System. • Since the Icelandic Bank collapse, the Council is prudent with regards to cash management and investment, which is appropriate in the current market climate.	Green

Page 369

© 2013 Grant Thornton UK LLP |

Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Performance against Savings Plans	• The Council had previously identified the annual savings to be made through the implementation of the MTFP. However, this is updated as a result of areas within its control (e.g. choosing to decline the Council Tax Freeze Grant) and those outside its control (e.g. increasingly reduced Central Government funding). In conjunction with directorates, this is then split between the directorates, with the first assumption being that the split should be proportionate to their annual budgets. Each directorate is required to identify the savings to be made and RAG rate this in reporting to Cabinet. These RAG ratings are split between achievability (i.e. how likely it is that the directorate can meet that particular saving) and political acceptability. • As part of the consideration of the directorate performance against the savings plan, the directorates are required to apply prudency in reporting a "worst-case" scenario. Further to this, each directorate is required to identify savings schemes with a total value that is higher than the target to allow for some slippage across the MTFP period. Furthermore, the Council has purposely increased its reserve balances in recent years (and intends to going forward where possible) in order to support future savings required. • During 2012-13, the Council achieved recurrent savings of £66m against a target of £71m, although countervailing savings ensured that an overall revenue underspend was achieved in-year. This compares to 2011-12 where the Council overachieved its savings target by £2.1m (£61.4m against a target of £59.3m). • The Cabinet is updated on a monthly basis regarding the progress of directorates against the savings plan. Each directorate is required to explain the reasons behind any slippage or failure to meet the savings plan and to identify compensating in-year savings. These reports include both the year-to-date and outturn figures. The Council has demonstrated that is has sound project management through proactive delivery management through achieving in-year underspends for a number of years despite not meeting its savings targets. During the course of our review we confirmed that countervailing savings were not always identified during the monitoring process. The Council should consider the formal reporting of this so that countervailing savings are clearly identified and their impact on service provision is better understood.	Green

© 2013 Grant Thornton UK LLP |

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Key Financial Accounting Systems	• Internal Audit have reviewed all of the key financial systems in 2012-13 and determined that there are some areas that need "some improvement". We do not consider that these areas represent material weaknesses. • The Trust's main accounting system is SAP, which is a well known accounting package that is appropriate to the business. The Council also uses a number of other systems such as SWIFT, Abacus and Minerva, which are specifically designed for their uses and thus are appropriate. The Council may need to revisit this as their service provision alters over time. • SWIFT, which is used by Adult Social Care, has multiple interfaces with the General Ledger on SAP, such as commitments, invoice payments, financial assessments, and accruals and pre-payments. Key interfaces are monitored to identify system failures, should they occur. • The accounting system (SAP) is both accurate and reliable in relation to the coding of activity as demonstrated through the main account walkthroughs completed and the review of the management accounts review process. The budget holder ownership of budgets is particularly strong in the Council since they are held to account for minor variances to the plan.	Green
Finance Department Resourcing	• The Council has a central finance team that provides additional support to each service, meaning that key positions within finance can be covered by other finance team members. The Council employs around 100 staff within financial management roles. The Council is particularly reliant on the Finance Manager (Assets and Accounting) and Capital Accountant, in compiling the financial statements. However, it should be noted that the team produced sound financial statements when the Finance Manager was on maternity leave, demonstrating the depth of ability within the team. • The Council performed a Public Value Review on financial management in 2011. A recommendation was made in relation to realigning the structure of the finance department with the Finance Vision and the process improvements identified as part of the Public Value Review. • As a result of this, the finance team has a total of 97 staff, of which 40 are CCAB qualified accountants, 7 part-qualified and 25 are members of AAT. • The Council has since restructured the finance department, including shared services, in order to meet the recommendation. This has both saved money and improved the effectiveness of the finance team although minor issues have arisen as a result of changes made that the Council is in the process of addressing. • During our fieldwork the Chief Finance Officer was identified by a number of key stakeholders as providing effective leadership of the finance function, and having constructive relationships with the Corporate Board and Cabinet colleagues.	Green

© 2013 Grant Thornton UK LLP |

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Internal audit arrangements	• The Internal Audit annual plan has been reviewed. On review of this plan, the areas to be covered across the financial year are sufficient for the organisation. The plan is risk-based, but subject to the consideration of materiality and service need. Overall the Internal Audit function performs well at the systems-based audits that form the majority of its work, but some services feel that they are less adaptable in areas where advice or creativity is required. • This is because the Internal Audit service is comparatively compliance-focussed compared to the expectations of some service departments. However, the function has demonstrated that it has provided advisory services where appropriate in areas such as the Public Value Reviews, developing staff analysis tools and working on duplicate payments with the Accounts Payable team prior to external consultants carrying out an Accounts Payable review and the introduction of an add-on to SAP. • The Audit and Governance Committee monitor outstanding recommendations at each meeting. A number of old recommendations are outstanding but progress against each of these is demonstrated. • New IA standards were published with effect from April 2013. The Council received an independent review for compliance with the new Public Sector Standards on Internal Audit Services during the year, for which they were found to be partially compliant with minor improvements required only. The Internal Audit service have already put in place an action plan to ensure they will be fully compliant during 2013-14.	Green
External audit arrangements	• Two prior-year recommendations within the 2011-12 Annual Governance Report and Annual Governance Statement are on-going into 2012-13. These are in relation to the monitoring of capital spending and information governance controls. • The Council has carried out an internal review of its Investment Panel and is now using new Project Systems and Investment Management modules in SAP to improve capital monitoring. The annual managers' assurance statements now include the consideration of information governance to ensure a culture of compliance is fostered. • In 2011-12 the external audit identified that accruals were potentially overstated. Following a detailed review by the finance department the overstatement was quantified as £2.5m and these accruals were reversed, contributing to the overall underspend of £18.1m for the year. • Recommendations are incorporated into the recommendations tracker that is reviewed at every Audit and Governance Committee meeting. They were then addressed by management via a report to members in February 2013.	Green

© 2013 Grant Thornton UK LLP |

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Assurance framework-risk management	• The risk management process is an iterative process of identification and assessment, monitoring and review, with Directors being responsible for reviewing and reporting on any perceived risks in their areas of responsibility. There are various committees and accountable officers that collate risk management reports and implement mitigation plans. This is completed through all directorates having a standing item on their monthly management meetings to review and update their risk register. These are then linked to the Leadership Risk Register. • The efficacy of the risk management process is monitored through half-yearly risk management reports to the AGC. The AGC gains assurance on the monitoring and review of risks by the register identifying when specific areas have been included on Select Committee agendas and also dates of future Select Committee reviews. • The Cabinet gains assurance over the risk management process through two main routes. Firstly, through the review completed by the AGC at each meeting and secondly through the IA review of the risk management process on an annual basis. The leadership risk register is reviewed by the Strategic Risk Forum (formally the Risk and Resilience Steering Group) and by the Corporate Board. • The basis for risk identification is the objectives and priorities within the Corporate Strategy and relevant directorate strategies and service plans. Each risk is allocated under the responsibility of a specific senior officer and member. Each risk is also aligned for monitoring purposes to a specific committee • The Leadership Risk Register splits the risk assessment between inherent and residual risk scores and key controls that mitigate against the inherent risk are identified for each risk. • Each risk within the Leadership Risk Register is linked to the relevant service-level risk number and is rated either High, Medium or Low risk. • Although the Leadership Risk Register does not contain actions required to mitigate against the risks identified, these are included within the individual directorate risk registers and are discussed as part of the review of the Leadership Risk Register. • On overall review of the size and number of the framework, it appears reasonable for the Cabinet to maintain an adequate review of the main risks to the Council considering the level of detail included within the Leadership Risk Register.	Green

© 2013 Grant Thornton UK LLP |

© 2013 Grant Thornton UK LLP |

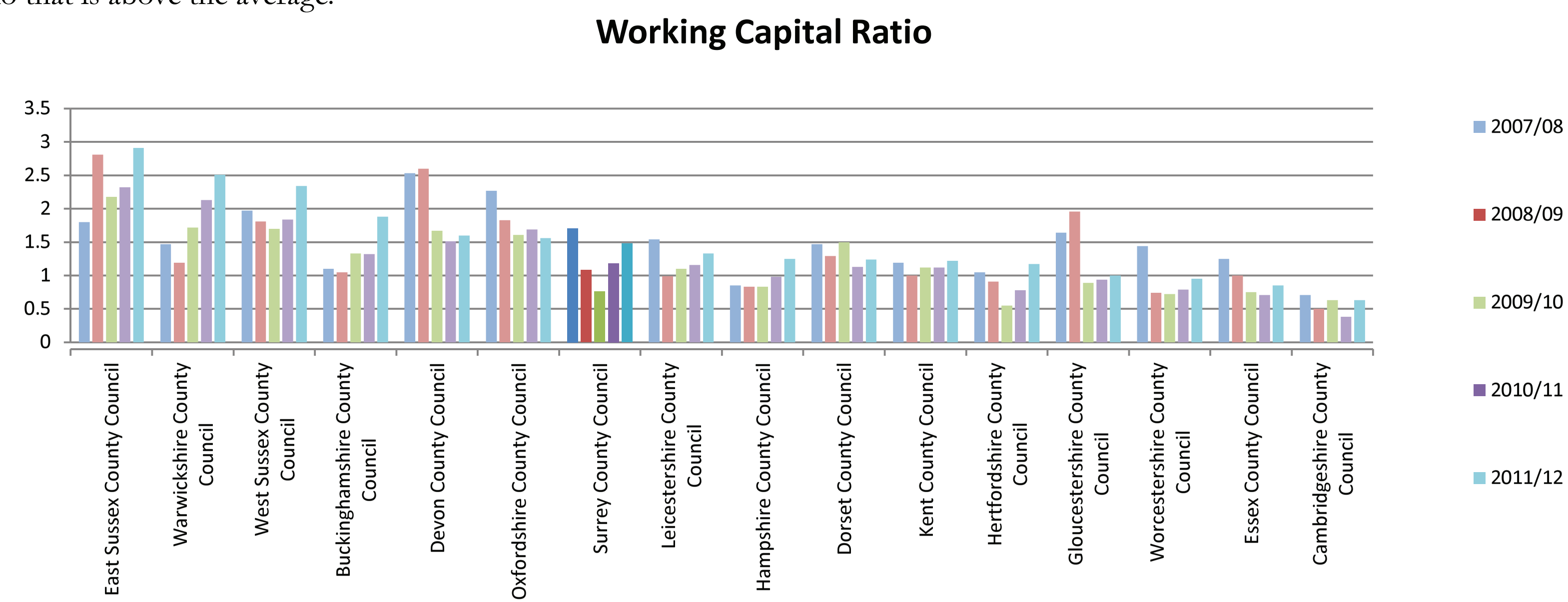
Working Capital - Benchmarked

Definition

The working capital ratio indicates if an authority has enough current assets, or resources, to cover its immediate liabilities - i.e. those liabilities to be met over the next twelve month period. A ratio of assets to liabilities of 2:1 is usually considered to be acceptable , whilst a ratio of less than one - i.e. current liabilities exceed current assets - indicates potential liquidity problems. It should be noted that a high working capital ratio isn't always a good thing; it could indicate that an authority is not effectively investing its excess cash.

Findings

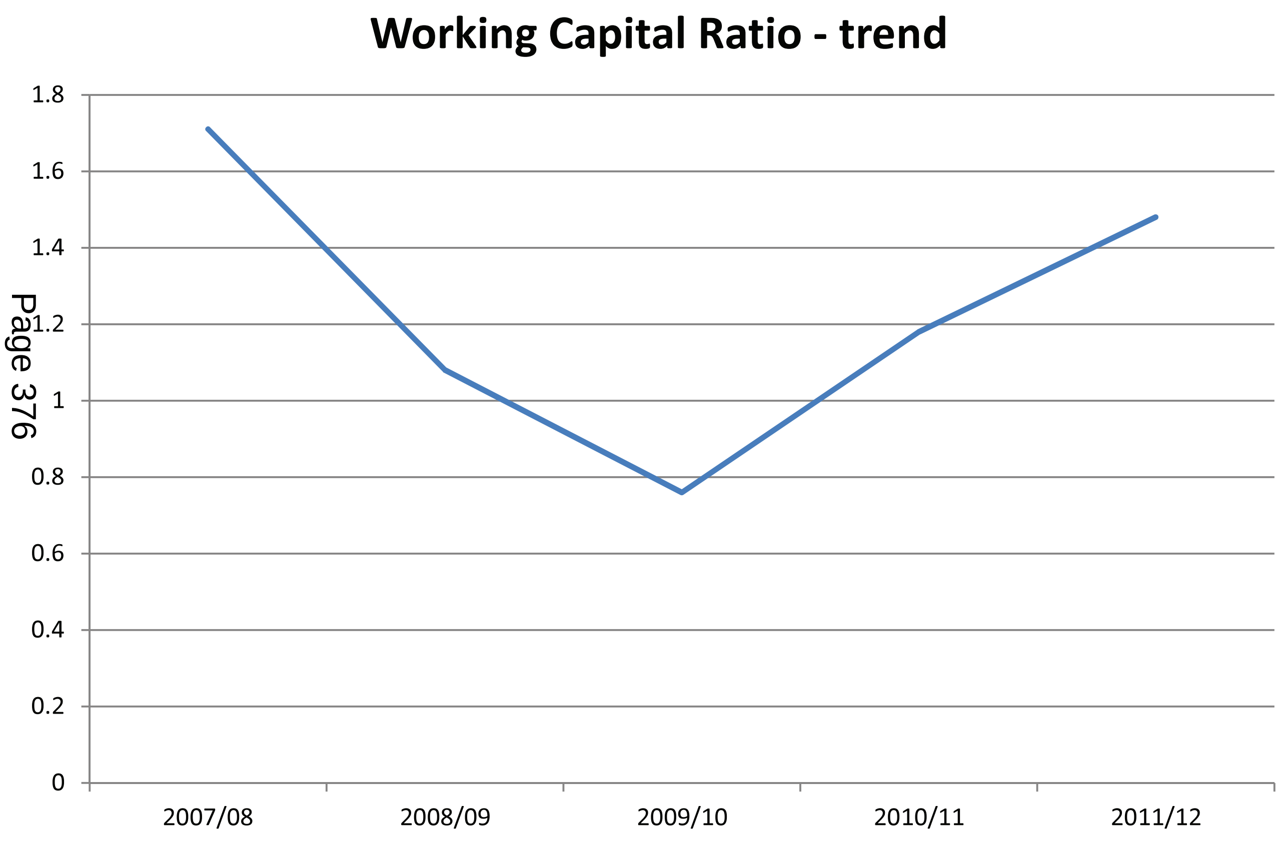
There is a mixed picture in terms of the movement in working capital ratios across the nearest neighbours. Seven out of the sixteen Councils have increased their working capital ratio from 2007-08 to 2011-12, whilst nine out of the sixteen Councils have seen a decrease over the same period. Of those Councils with a decreasing working capital ratio the average decrease is around 25%. The Council has seen a decrease of 13% and maintains a ratio that is above the average.



Source: Audit Commission's Technical Directory

© 2013 Grant Thornton UK LLP |

Working Capital - Trend



Source: Audit Commission's Technical Directory

Findings

The working capital of the Council reduced from 1.71 to 0.76 in 2009-10. Net current assets decreased by £72m from 2008-9 to 2009-10. The cash - short-term investment balance decreased by £130m due to the repayment of borrowing, £89m of this was a planned repayment and so the decrease in current assets (cash - investments) is offset by a corresponding decrease in current liabilities (short-term borrowing) of £89m. The additional £40, decrease in cash was due to the additional early repayment of borrowing (classified on the balance sheet as long-term borrowing as this was not planned at the end of the previous year). This, added to an increase in creditors of £30m, explains the decrease in net current assets from 2008-09 to 2009-10.

Since that time the ratio has increased again to 1.48 in 2011-12. The net current asset balance increased, which was mainly due to increases in cash balances - investments which was due to capital underspends and some movements in debtors - creditors.

© 2013 Grant Thornton UK LLP |

Key Indicators of Financial Performance

Useable Reserves - Benchmarked

Definition

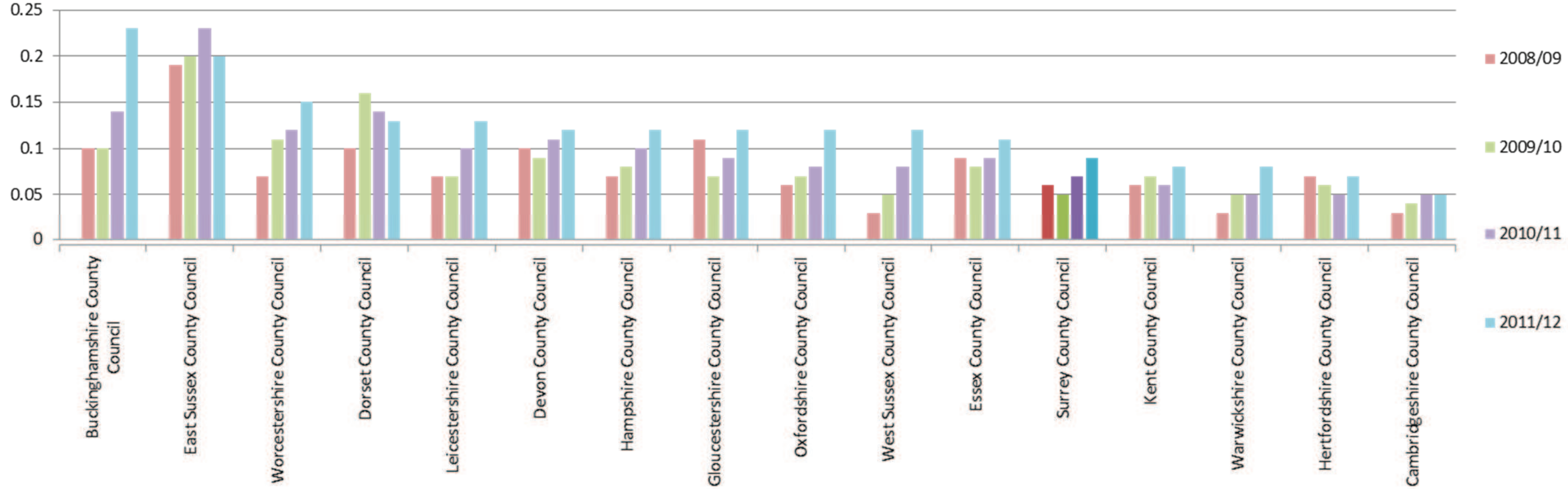
This shows useable capital and revenue reserves as a share of expenditure. A ratio of one means the total reserves matches the level of expenditure.

Findings

The Council has maintained a ratio below the average since 2008-09 but has increased its ratio since that time from 0.06 to 0.09. This is an increase of 50% against an average increase of 75% for the nearest neighbours.

Page 377

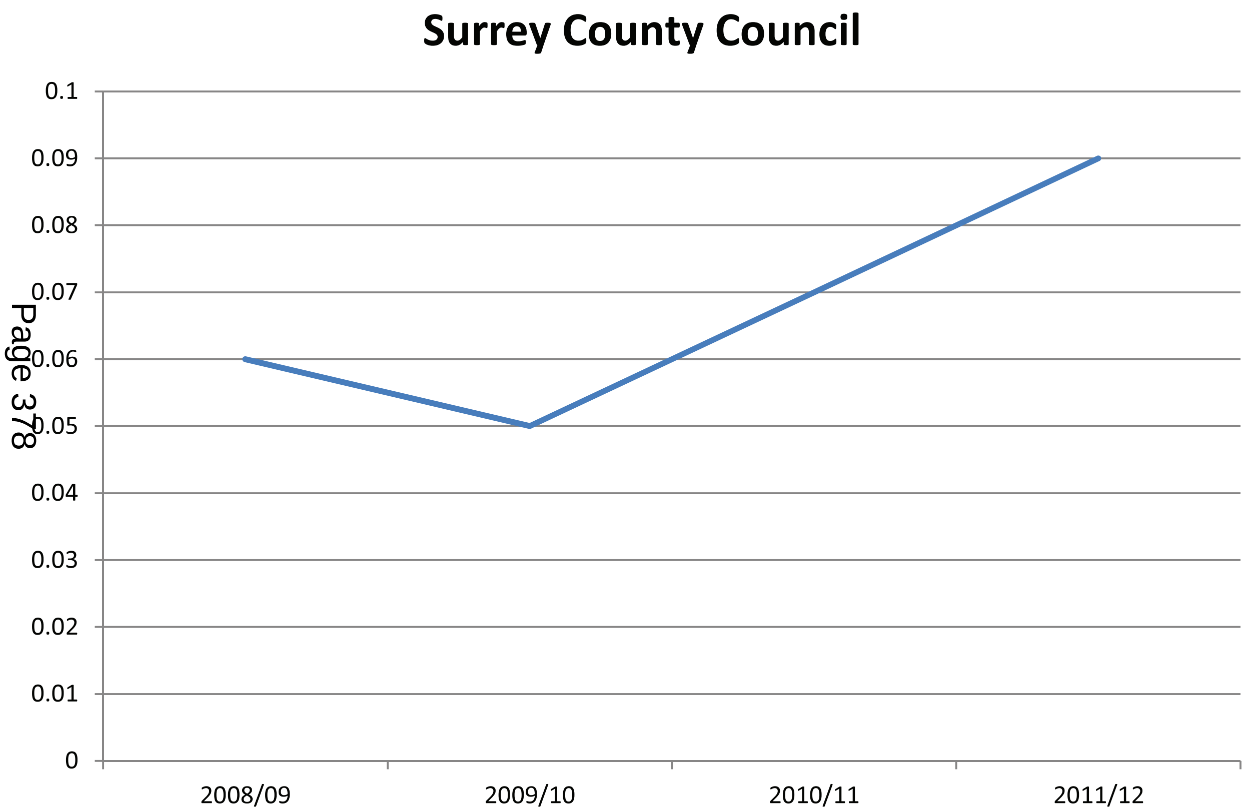
Usable Reserves to Gross Revenue Expenditure ratio



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

Useable Reserves - Trend



Source: Surrey County Council Statement of Accounts 2009-10 to 2011-12

Findings

The Council has increased its ratio of useable reserves to Gross Revenue Expenditure (GRE)since 2009-10.

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

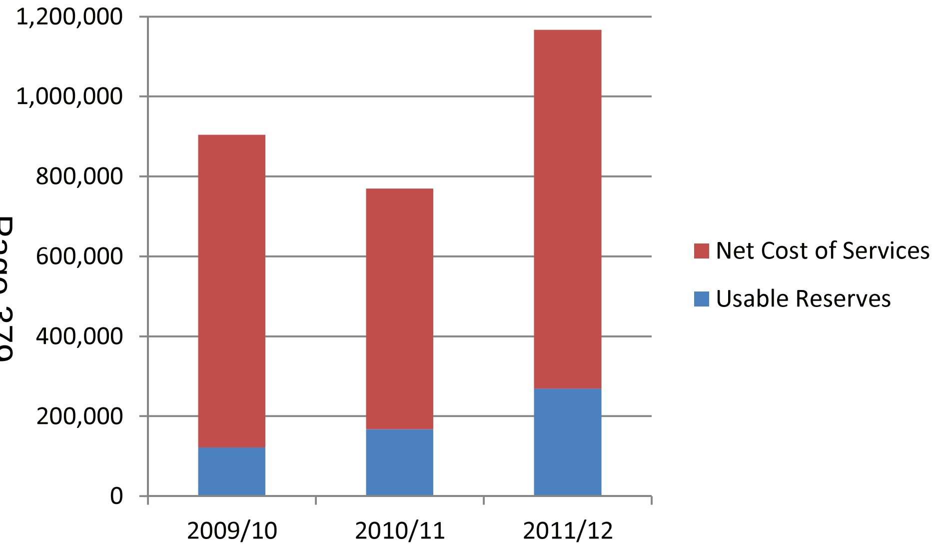
The Council has followed this guidance by increasing the level of its reserves over this period in order to provide mitigation against potential future funding restrictions.

© 2013 Grant Thornton UK LLP |

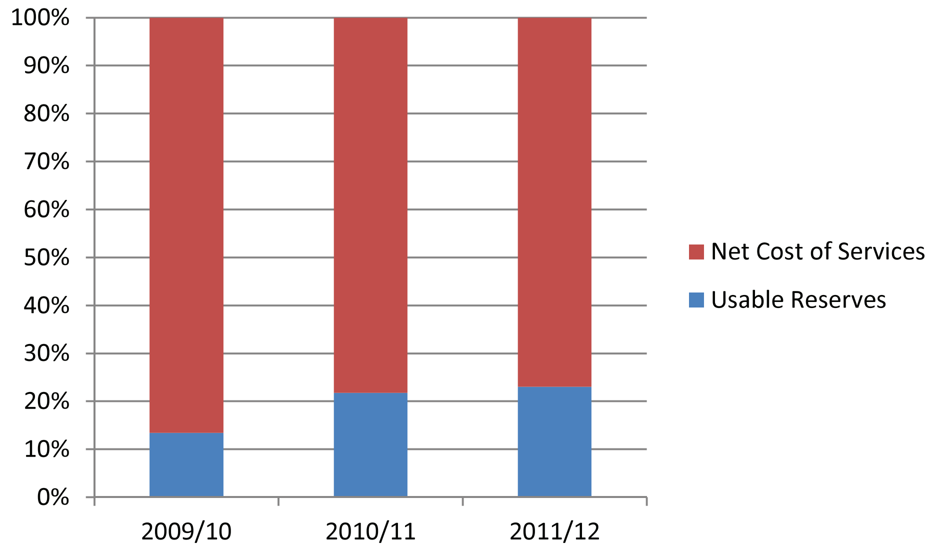
Key Indicators of Financial Performance

Reserves

The graphs below show the level of usable reserves against the net cost of services balance. The first graph shows this in actual terms, the second in percentage terms.



Page 379



Findings

The Council has increased its usable reserves balance in line with net cost of services increases from 2009-10 to 2011-12. This was a policy decision made in order to provide financial resilience in the face of probable future funding restrictions.

Source: Surrey County Council Statement of Accounts 2009-10 to 2011-12

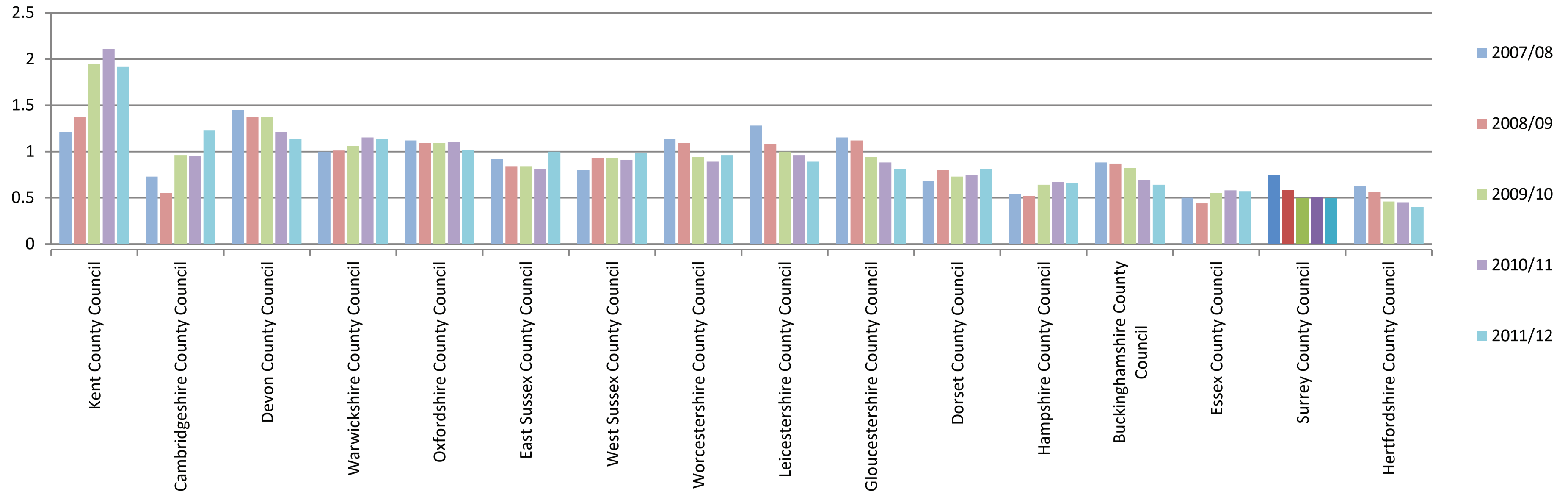
© 2013 Grant Thornton UK LLP |

Long Term Borrowing to Tax Revenue - Benchmarked

Definition
Shows long tem borrowing as a share of tax revenue. A ratio of more than one means that long term borrowing exceeds council tax revenue.

Findings
The Council's long term borrowing ratio (as a percentage of tax revenue) has reduced by 35% (from 0.75 in 2007-08 to 0.49 in 2011-12), and is in line with the Council's Treasury Management Strategy. This downward trend has meant the Council maintains one of the lowest ratios across all of its neighbours, which has been enhanced because not all of the nearest neighbour authorities have seen a similar downward trend of borrowing levels from 2007-08 to 2011-12.

Long Term Debt to Tax Revenue ratio



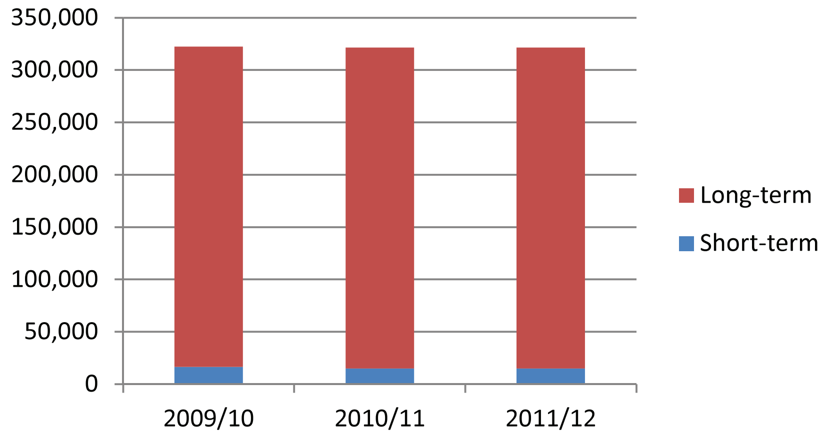
Source: Audit Commission's Technical Directory

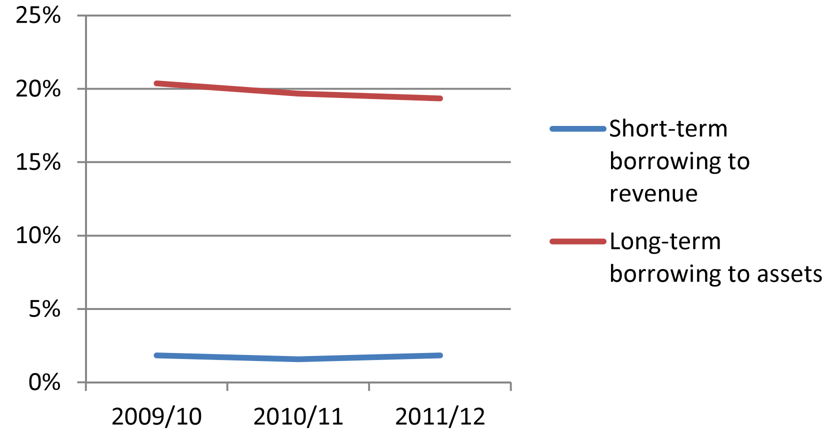
© 2013 Grant Thornton UK LLP |

Key Indicators of Financial Performance

Borrowing

The first graph shows borrowing balances for both long and short term borrowing in actual terms, the second graph shows the respective ratios between long term borrowing and assets and short term borrowing and revenue:





Findings

The Council has minimal short-term borrowing compared to long-term borrowing. Overall, both short and long-term borrowing have remained stable since 2009-10. The majority of the Council's borrowing is direct from the Public Works Loan Board.

The Council has maintained low levels of borrowing compared to other Councils as demonstrated by the fact that the Council has good coverage of its short-term borrowing by revenue and of long-term borrowing by assets.

Source: Surrey County Council Statement of Accounts 2009-10 to 2011-12

© 2013 Grant Thornton UK LLP |

Key Indicators of Financial Performance

Long-term borrowing to Long-term assets - Benchmarked

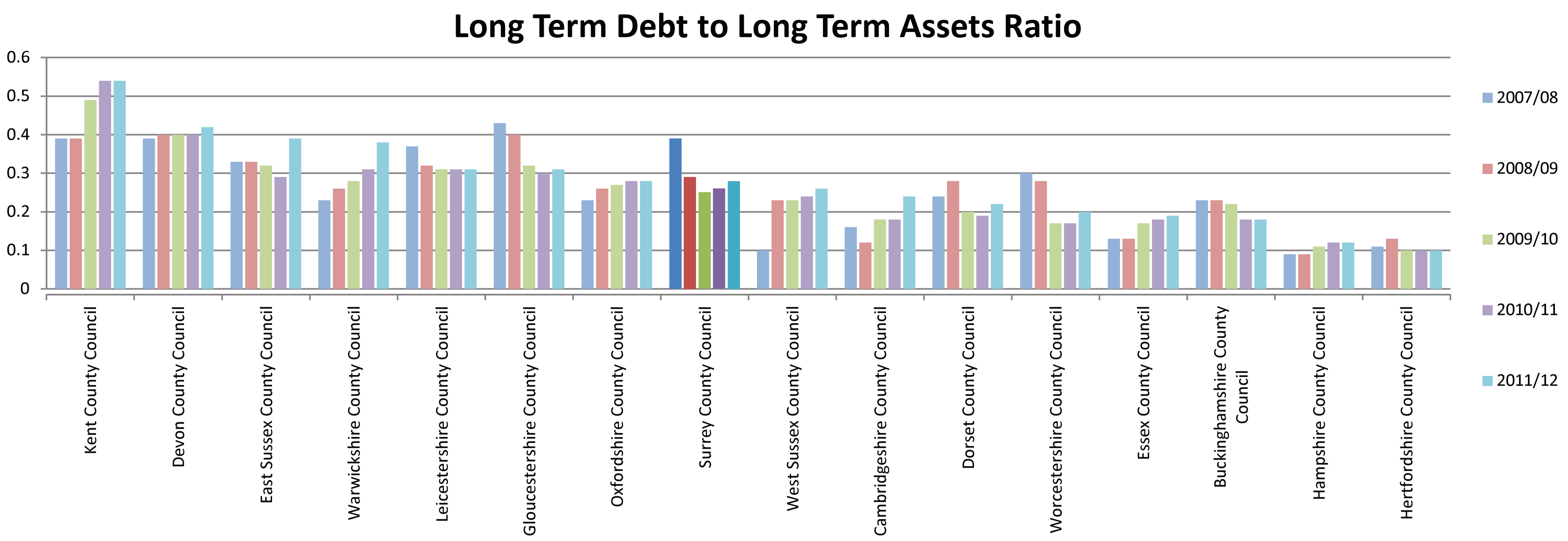
Definition

This ratio shows long tem borrowing as a share of long term assets. A ratio of more than one means that long term borrowing exceeds the value of long term assets.

Findings

The Council's long term borrowing to assets ratio has decreased by 28% from 2007-08 (0.39) to 2011-12(0.28), and is in line with the Council's Treasury Management Strategy. There is a mixed picture in terms of the movement across the nearest neighbours with nine out of the sixteen having increased their ratio from 2007-08 to 2011-12, whilst six out of the sixteen Councils have seen a decrease over the same period. Overall the Council is in line with the average across its neighbours.

Page 382



Source: Audit Commission's Technical Directory

© 2013 Grant Thornton UK LLP |

Key Indicators of Financial Performance

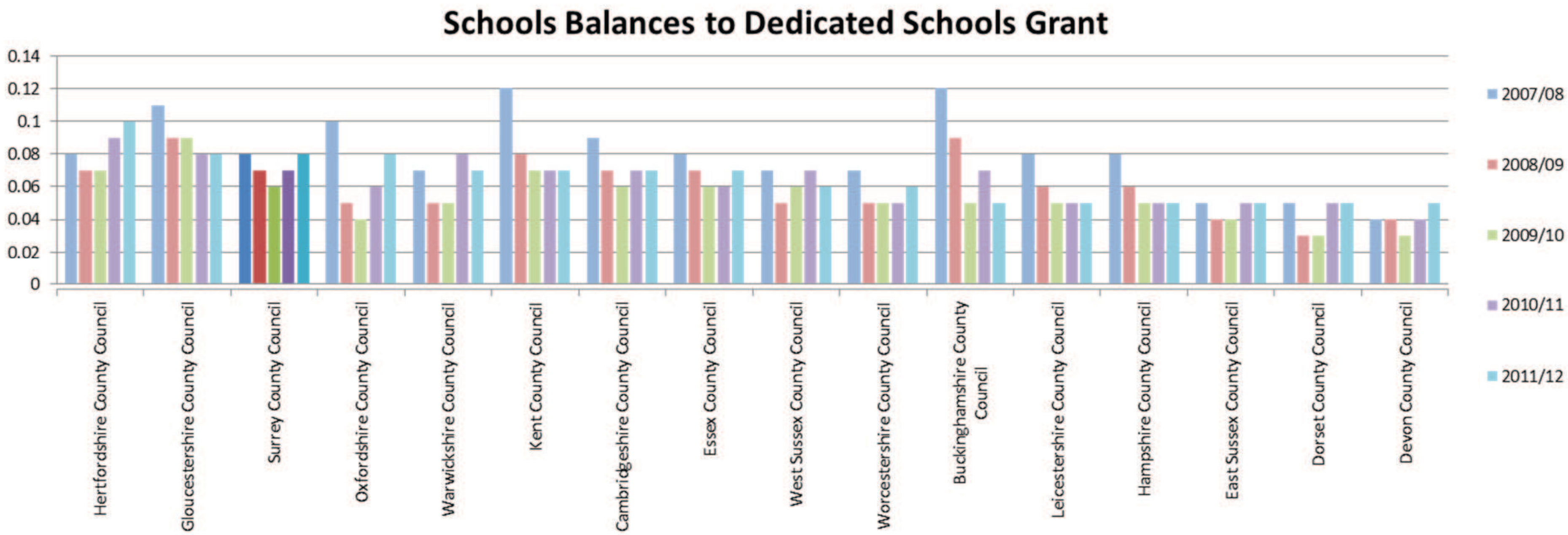
Schools balances to DSG allocation - Benchmarked

Definition

This shows the share of schools balances in relation to the total DSG allocation received for the year. For example a ratio of 0.02 means that 2 per cent of the total DSG allocation remained unspent at the end of the year.

Findings

The Council's ratio has not changed materially over the period, being both 0.08 in 2007-08 and 2011-12. This remains slightly above average across the period compared to its neighbours.



Source: Audit Commission's Technical Directory

© 2013 Grant Thornton UK LLP |

Key Indicators of Financial Performance

Sickness Absence Levels

Background

The average sickness absence level for the public sector is 9.6 days per FTE, whilst the private sector average is 6.6. Many councils have taken a proactive approach to reducing the number of days lost to sickness each year. For example:

- London Borough of Croydon reduced absence from 12.5 days to 6.4 days over two years due to new tougher sickness absence management.
- Cambridgeshire County Council reduced sickness absence levels to 5 days per employee using an approach built on a relationship of trust with staff and empowering managers to take control of absence management.

Page 384

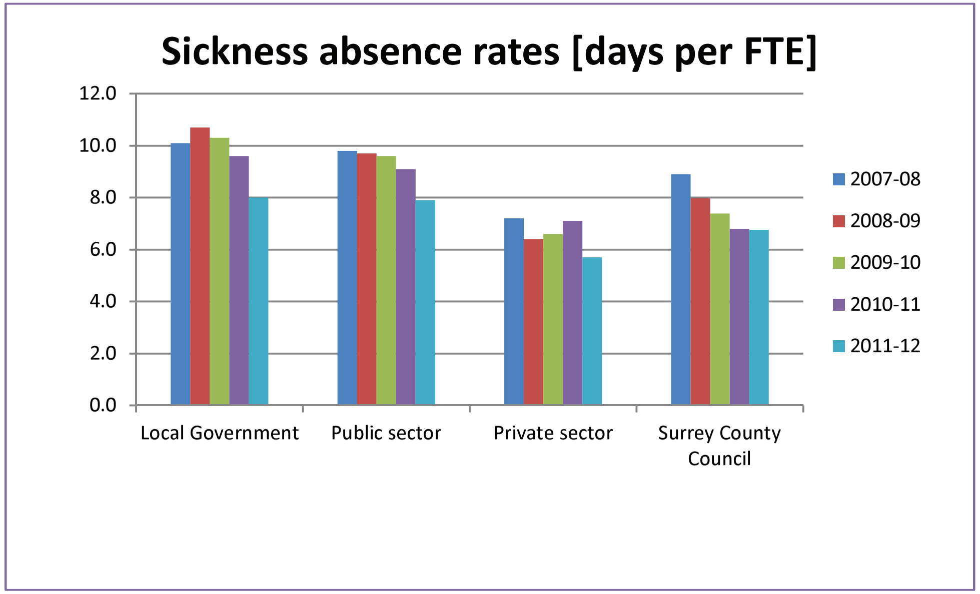
Costs that accrue from sickness absence relate to the hiring of agency staff to cover staff gaps, or from holding a larger workforce complement than is desirable. Absence also damages service levels either through staff shortage or lack of continuity. Reducing absenteeism saves money, improves productivity and can have a positive customer benefit. Absence management will be a particular challenge for all authorities during SR10, given the context of significant pressures on staff to deliver "more for less".

Definition

This shows the sickness absence rate represented as days per Full-time Equivalent (FTE) per annum.

Findings

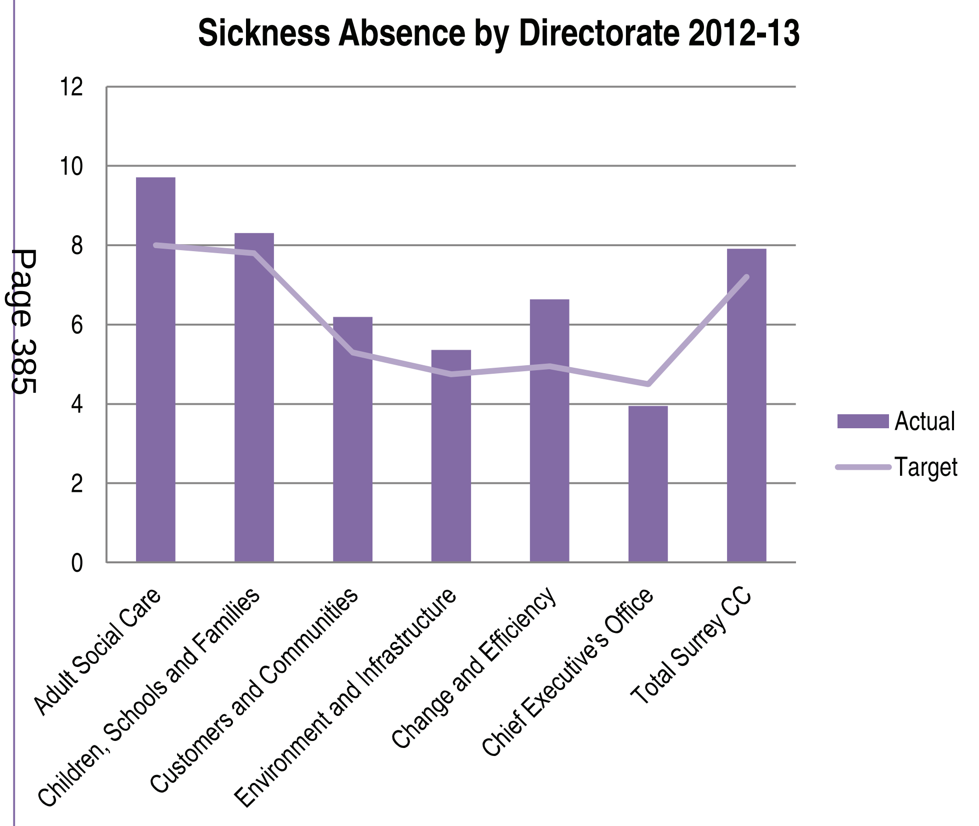
The Council has not only consistently reduced the average sickness rate across the five year period (8.9 to 6.76 FTEs), but has also ensured the rate is below both the public sector and local government averages.



Source: Surrey County Council Workforce Information Reports and CIPD Annual Survey Reports on Absence management

© 2013 Grant Thornton UK LLP |

Sickness Absence Levels – by Directorate



Page 385

Source: Surrey County Council Workforce Information Reports

Findings

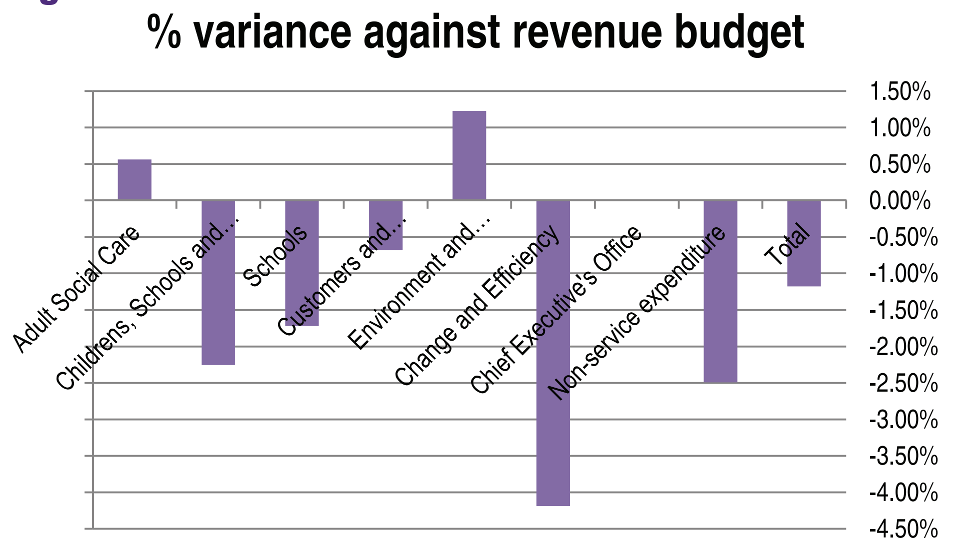
The directorates' sickness absence levels are in line with expectations in that Adult Social Care (9.71 FTEs) and Children, Schools and Families (8.31 FTEs) directorates tend to have higher than average sickness absence due to the nature of their role.

The Chief Executive Office is the only directorate that has met its target, being 3.95 days against a target of 4.50 days. The Council should review this to ensure that any lessons that can be learnt from work completed in that directorate are shared with other services where relevant.

© 2013 Grant Thornton UK LLP |

Key Indicators of Financial Performance

Performance Against 2012-13 Budget: Major Variances from Working Budget

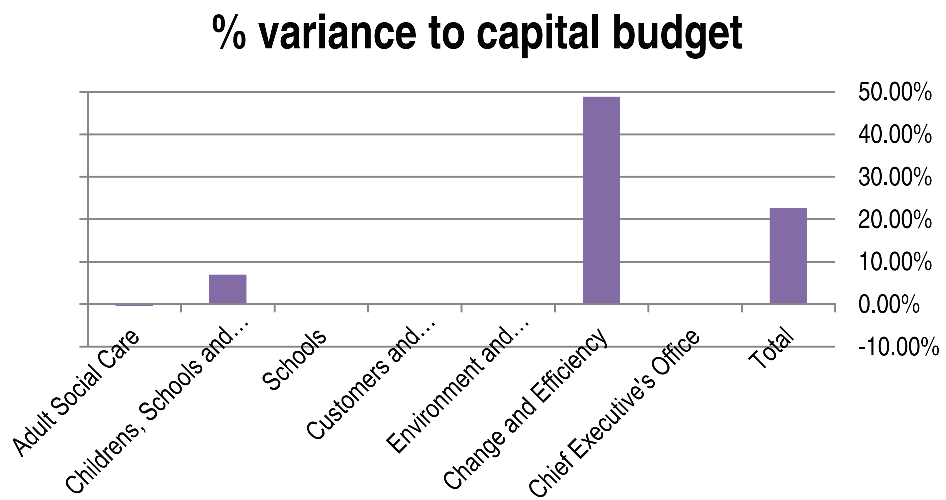


Findings

The overall revenue outturn position is an underspend of £3.1m including roll forwards. In both cash and percentage terms, the directorate with the best performance is Change and Efficiency, with an underspend of £3.7m (4.19%).

The only directorates with overspends are Adult Social Care and Environment and Infrastructure, which were £1.9m (0.58%) and £1.6m (1.23%) respectively.

Schools underspent against the DSG budget by £9.3m representing 1.72% of the total schools budget.



Source: Surrey County Council Draft Outturn Budget Report 2012-13

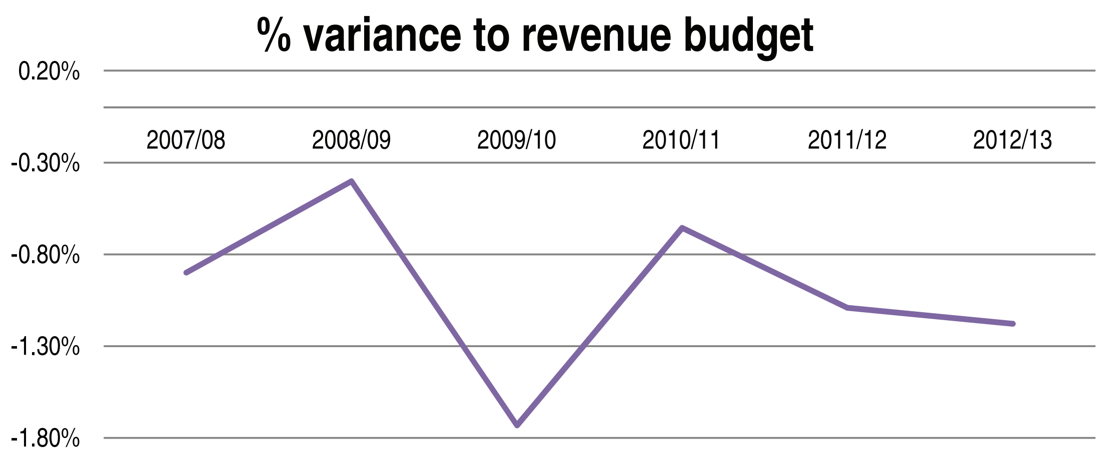
Findings

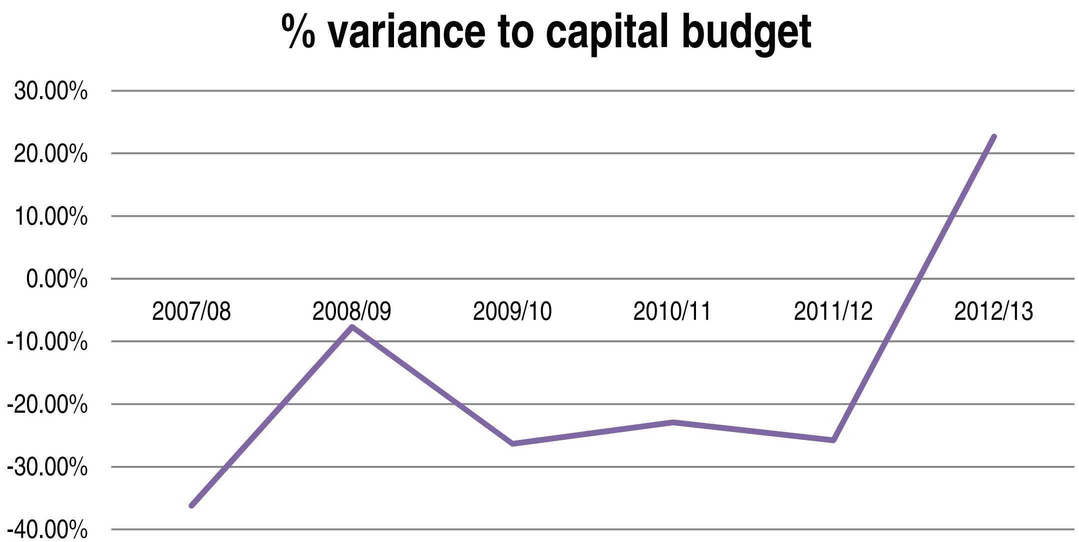
The £16.3m overspend in relation to the Change and Efficiency budget resulted from committed expenditure relating to the purchase of a number of properties that is funded in future years, but was brought forward to 2012-13 as it made financial sense to do so.

© 2013 Grant Thornton UK LLP |

Key Indicators of Financial Performance

Performance Against Budget: Track Record





Source: Surrey County Council Draft Outturn Budget Report 2012-13

Findings
The Council has consistently underspent against its revenue budget in the past six years.

The smallest underspend amounted to £2.6m (2008-09), whilst the largest occurred in 2012-13 and amounted to £18.1m.

Findings
For the first time during the past six years the Council has overspent against the capital budget. There are a number of factors that have contributed to this including tighter capital monitoring and the bringing forward of capital projects from future years where the Council determined this represented better value for money. However, this does include £16m of committed expenditure that did not occur until early in 2013-14.

© 2013 Grant Thornton UK LLP |

Grant Thornton

© 2013 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk