

Annual Governance Statement 2017/18



OVERVIEW

Surrey County Council (the Council) has a responsibility for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. We also have responsibility for ensuring there is a sound system of governance and appropriate internal controls in place. We are committed to fulfilling our responsibilities in accordance with the highest standards of good governance to support our Corporate Strategy. The Council's Governance Strategy sets out our approach to good governance and is supplemented by our Code of Corporate Governance.

This document comprises the Surrey County Council Annual Governance Statement for 2017/18, which outlines the Council's governance arrangements during the year. This Annual Governance Statement also identifies key areas of focus, where actions are required to strengthen governance in 2018/19. This is of particular importance as the Council undertakes a significant transformation programme and continues to operate in a challenging financial climate.

THE GOVERNANCE ENVIRONMENT

Purpose and outcome

During 2017/18 Surrey County Council's Corporate Strategy provided direction for staff as well as a signpost for residents, businesses and partner organisations and incorporated the Council's four values of Listen, Responsibility, Trust and Respect at its heart. It was underpinned by a suite of supporting documents, such as the Medium Term Financial Plan and the Investment Strategy. Performance was measured through a variety of key indicators that related to wellbeing, economic prosperity and resident experience and progress was published on the external website. A new draft vision for the county has been developed and will be used as the basis for engagement with residents, staff, Members, partners and business over the summer of 2018.

The Council continues to develop its commercial activities and its property investment portfolio to enhance the financial resilience of the Council. The Shareholder Board monitors the activity and performance of the trading companies created and owned by the Council and provides oversight for the Council's shareholdings; the Investment Board was created in March 2017 to facilitate the further growth of the investment portfolio. Both these Boards are Member led, are supported by relevant internal and external professional advisors and produce annual reports to provide updates on progress and monitor performance.

The Statutory Responsibilities Network, chaired by the former Chief Executive, met throughout 2017 on a fortnightly basis and provided a forum for statutory officers to discuss key issues, share knowledge and offer challenge. The network provided governance oversight and ensured statutory responsibilities were managed through regular review of key risks and issues and progress of key strategies and implementation plans. For 2018/19 onwards this oversight will be provided by a new stronger Corporate Leadership Team model, as well as through a Risk and Governance group, which will meet monthly to provide a forum for considering current strategic risks and issues, and ensuring appropriate actions are taken in response. The group will support and ensure an effective assurance framework, incorporating risk management, internal control and regularity compliance.

The Council's external auditors' 2016/17 report on value for money published in July 2017 concluded that *'in all significant respects, the Authority put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources, with the exception of the arrangements in place within the Council's Children's Services directorate.'*

Throughout 2017/18 the Children's Improvement Board, Surrey Safeguarding Children Board, Corporate Parenting Board and the Children & Education Select Committee have all overseen and scrutinised services for children and their families in Surrey. These arrangements have not had sufficient impact or provided sufficient oversight to deliver safe outcomes for children and families and are under review following the appointment of Dave Hill as Executive Director for Children, Families, Learning and Communities.

Senior officers and Cabinet Members continue to work with the others in local government, Surrey MPs and the Government to identify ways to ensure sustainable services. In the last year the Government has announced a number of consultations, including a Fair Funding Review and Social Care Green Paper, which will provide opportunities for the Council to influence policy on the future of local government funding and promote the issues that affect Surrey most.

In December 2017, it was announced that the Council, along with the 11 boroughs and districts, had been successful in their application to become a 100% business rates pilot. The pilot will operate from 1 April 2018 to 31 March 2019 and designates the authorities as a pool. Surrey County Council is acting as the lead authority for the pool and a Memorandum of Understanding is in place, setting out the terms by which the authorities in the pool will pilot 100% business rate retention to drive growth and promote sustainability.

There were a number of officer leadership changes throughout the year. The Chief Executive retired in October 2017 and the role was fulfilled on an interim basis by the Deputy Chief Executive. The Council's Monitoring Officer retired in December 2017 and this role is being filled by the Head of Legal. The new Chief Executive started in March 2018 and has put in place a strengthened leadership structure, with 6 new Executive Director roles working across People, Place and Corporate Support.

The functions of the Monitoring Officer and Section 151 Officer are specified by statute and between them they are responsible for ensuring lawfulness, fairness and financial prudence in decision-making.

The Council's financial management arrangements during 2017/18 fully complied with the Chartered Institute of Public Finance and Accountancy's Statement on the Role of the Chief Financial Officer (CIPFA, 2010). The Director of Finance met her financial responsibilities and ensured financial management arrangements were in place. She reported directly to the Chief Executive and had regular contact with the Leader and key Members, Chief Executive, Monitoring Officer, Chief Internal Auditor, External Auditor and other key Members and Strategic Directors. The new Chief Executive has put new arrangements in place to ensure robust financial management and effective governance is in place through the Corporate Leadership Team (supported by the Risk and Governance group.)

The 2017/18 budget was set in a climate of rising demand for services and targeted £104m of savings to be delivered. Throughout the year a process of monitoring of the delivery of the necessary savings was in place, including regular reporting to both the Chief Executive's Direct Reports meeting and Cabinet on progress against savings targets. By the end of the financial year, savings of £80m were achieved. While this marks the highest level of savings achieved by the Council, it fell short of the targeted savings plans by £24m. As the financial challenges the Council face continues it is essential that the Council strengthens its arrangements and implements more robust processes for identifying and monitoring savings targets in 2018/19.

In addition, strategic budget planning workshops, led by the Director of Finance were held with Cabinet and the Leadership Team on a regular basis. Finance briefings for all Members have been held throughout the year to support the preparation of the budget for future years. Additional meetings have also been held, as deemed necessary, in light of the financial challenges emerging from the Local Government financial settlement and the increased pressure and demand for our services.

The roles, responsibilities and delegated functions for officers and Members are set out in the Constitution of the Council. The Scheme of Delegation for Members and officers is regularly reviewed to reflect organisational and operational changes (last updated in May 2018) and updated in consultation with senior officers and the Cabinet, before being approved by full County Council. The Cabinet comprises the Leader, Deputy Leader and eight additional Cabinet Members, with each Member holding the brief for a particular portfolio of services. Decisions can be taken by individual members of the Cabinet or collectively by the full Cabinet. In line with legislation, the Leader determines which decisions are delegated to individual Members and this is set out in the Council's Constitution.

The Staff and Member Codes of Conduct set out the expected high standards of conduct and include the 7 Standards of Public Life. The Code of Conduct for staff, which applies to all staff, workers, contractors and their staff whilst working for, or on behalf of the Council, was updated in September 2017 to make explicit the requirement to behave ethically, to act in accordance with the Council's Counter Fraud Strategy and to make clear the expectation that employees must report to work in a fit and safe state to carry out their duties. The Codes of Conduct are supplemented by the Member/Officer Protocol, which provides principles and guidance for good working relations, and the Counter Fraud Strategy.

The Monitoring Officer and the Member Conduct Panel, in consultation with the Independent Person, deal with allegations of breaches of the Member Code of Conduct. The Members Code of Conduct also includes provisions for the registration and disclosure of pecuniary and other interests, which includes a requirement for Members to register significant personal interests, declare prejudicial interests and disclose pecuniary interests and significant personal interest at meetings of the Council and its committees. The register of pecuniary interests for all members can be viewed online.

The Cabinet meets in public on a monthly basis, with a forward plan of decisions published on a rolling three month basis outlining the upcoming decisions of both the Cabinet or individual Cabinet Members. Members of the public and back-bench members are invited to submit questions at any Cabinet meeting and there is a petition scheme in place, supported by an e-petition system. Every County Council, Cabinet and Planning & Regulatory Committee meeting is webcast to enable people to watch meetings online.

The Council had six Member select committees during 2017/18, which provided challenge to the Cabinet. The Overview and Budget Scrutiny Committee (OBSC), took a Council-wide view and led on collaborative scrutiny issues. In addition, a sub-group of OBSC received and provided scrutiny of the monthly budget monitoring reports including the achievement of savings targets. Changes have been made to the committees from May 2018 to align them to the new Cabinet portfolios and senior office structure.

The Audit and Governance Committee provides independent assurance on the Council's control environment, the adequacy of the risk and governance arrangements, financial reporting and ethical standards. The Council has also appointed 9 local committees and 2 joint committees, aligned with the boroughs and districts, to ensure more efficient, transparent and accountable local decision making.

The Investment Panel, which is chaired by the Deputy Chief Finance Officer, and meets monthly, as necessary, continues to ensure all proposed service capital investments have robust business cases before formal decision by Cabinet or Cabinet Member as appropriate. It also approves any invest to save schemes (funding from this reserve is re-paid from future savings). During 2017/18 the Council underspent its capital programme by £37m which has highlighted the need to review the role of the Investment Panel and strengthen the governance arrangements in place for the monitoring of capital expenditure.

The Strategic Risk Forum, chaired by the Director of Finance, brings together lead officers from across the Council to review and challenge risk and ensure a consistent approach is adopted. The Leadership risk register was regularly reviewed by the Statutory Responsibilities Network, (now CLT), Audit and Governance Committee and Cabinet during 2017/18.

The Director of Finance also chaired the Information and Risk Governance Board and held the role of Senior Information Risk Officer during 2017/18. The Board provides strategic oversight and ensures that the Council has effective information and risk governance policies and management arrangements including breaches of confidentiality and information security.

The General Data Protection Regulation (GDPR) is a new legislative requirement on data protection and privacy for all individuals within the European Union. The GDPR applies in the UK from 25 May 2018 and the Council continues to work towards compliance with a Data Protection Officer in place to drive this forward.

The Council provides a confidential facility through an external provider for anyone wishing to whistle blow. The policy and guidance have been updated during 2017/18 to provide further clarification on the process and this service is publicised in Council buildings and through the front page of the Council's intranet.

The gifts and hospitality register is held on the internal website and provides a means for staff to register any gifts or hospitality whether offered, accepted or declined. Gifts and hospitality has its own policy and all declarations are electronic. These are reviewed regularly by HR and summary reports are received by appropriate senior officer groups and included annually in the bulletin of the Audit & Governance Committee. The requirement to declare gifts and hospitality has been promoted with a focus on out posted establishments as well as in the Council's main buildings.

The Surrey Pension Fund Committee takes decisions on behalf of the Council as the administering body for the Local Government Pension Scheme and meets four times a year. The Surrey Local Pension Board assists the Surrey Pension Fund Committee in the exercise of its functions but has no decision making powers. A Local Fire Pension Board also assists the Surrey Fire and Rescue Service in the administration of its Firefighters' Pension Scheme.

The Border to Coast Pensions Partnership, a pool of 12 Local Government Pension Schemes including the Surrey Pension Fund, has started to make senior staff appointments, build its investment structure and obtain Financial Conduct Authority approval for its operation.

Public Sector Audit Appointments Ltd (PSAA) appointed Grant Thornton as the Council's external auditor for up to 5 years from 2018/19. This is the result of a sector-led appointment process provided by PSAA who developed a national collective scheme.

In June 2017, a new Chief Internal Auditor for Orbis was appointed, who fulfils the role for the three authorities within the Orbis partnership. The 2018/19 Internal Audit plans for all three partners aim to provide a consistent approach and maximise the skills and knowledge of the team.

Orbis Internal Audit completed an independent external inspection against the Public Sector Internal Audit Standards in January 2018. The review was conducted by South West Audit Partnership (SWAP) and involved interviewing key stakeholders from all three partner organisations. The review gave an opinion of 'Generally Conforms' which is the highest of the three rankings, meaning that Orbis Internal Audit is achieving the highest level of conformance with the Standards and Code of Ethics.

A 'reasonable assurance' audit opinion was given following the annual internal audit of Organisational Ethics. The audit established that the Council has clear leadership on ethics and a clear ethical framework, which is effective in practice. It also concluded that the Council responds effectively if there is a breach in behaviour and that there are appropriate internal control mechanisms in place to detect such breaches.

Internal audits in areas such as employee expenses and other benefits claimed by staff identified an apparent diminution in the control environment in which such claims are made and authorised. In some instances the checking and validation of claims made by managers was insufficiently robust to reduce the risk of fraud and/or error in the amounts paid and claims were not fully compliant with Financial Regulations. Required improvements in the control environment include tightening of the Financial Regulations and the introduction of measures through the appraisal system to ensure the importance of compliance to core policies is understood and followed. The 2018/19 internal audit plan includes specific cultural compliance reviews to assess compliance across all directorates.

The overall opinion of the Chief Internal Auditor on the internal control environment for 2017/18 is "Reasonable Assurance." This opinion is based on the internal audit work completed throughout the year, and concludes that the majority of key controls examined are working in practice, with some specific exceptions. The annual report of internal audit highlights that there remains a need to strengthen governance and internal control arrangements within Children's, Families and Learning and sets out that internal audit will continue to support the improvement agenda and provide assurance wherever possible that sufficient progress is being made.

After the local elections in May 2017, the Council designed and delivered a comprehensive training and guidance programme for new and returning Councillors, including the code of conduct, committee processes and introductions to the Council's service areas. New members were 'buddied' with senior managers to help them learn the role and the services of the Council and signpost them to officers for queries. 97% of Councillors rated the induction as good or excellent as part of an induction survey conducted in September 2017.

A new leadership development programme has been developed that focuses on communication, setting clear expectations and coaching. It is a more self-directed and flexible programme to support leaders and managers with their varying challenges, needs and time constraints

People

During October and November 2017 staff participated in a staff survey, which has provided evidence of how colleagues feel about working for our organisation. The data has been shared and teams across the Council are reviewing the feedback to identify and agree action plans to improve key areas.

The HR & OD strategy was reviewed and updated in 2017/18 following a review of the current people related strategies and to reflect and consider the challenges and opportunities for our workforce. The Continuous Improvement and Performance Network and Chief Executive's Direct Reports (now CLT) engaged with this review to ensure the vision and priority areas are the right ones for their services and the organisation. The updated strategy is published on the Council's external website.

Engagement and Collaboration

Health and social care integration continues to be one of the top priorities for the Council, working together with health partners to make the best use of collective resources to meet residents' needs.

Governance arrangements for the two Integrated Care Systems and one Sustainability and Transformation Plan that Surrey is a partner in are complex and differ between the three. The Surrey Health & Wellbeing Board (HWB) sets the strategic direction for health and social care in Surrey and a Joint Health and Wellbeing Strategy outlines their priorities. All three partnerships have signed memorandums of understandings which underpin the governance arrangements.

The STPs have prioritised citizen engagement and the Surrey Heartlands' engagement approach was recognised nationally as an exemplar model, receiving funding from NHS England as a result.

Internal Audit continue to work with external partners through chairing and coordinating the Surrey Counter Fraud Partnership, a collaborative approach for dealing with non-benefit fraud locally. Initially grant funded, the partnership has developed into a sustainable and innovative approach to tackling fraud at borough, district and county levels. This has led to increased cooperation and joint working between, and within, the different tiers of local authorities in Surrey. The partnership has grown into a multi-agency body led by Surrey with membership from all 11 districts and boroughs, Surrey Police, Trading Standards and registered social landlords from across the county. The partnership has delivered savings to the public purse of over £10m since its inception in 2015, including the recovery of over 100 social housing properties and the prevention of over 200 fraudulent applications for housing, homelessness or Right-to-Buy.

Partnership working has enabled the Council to reduce the cost of support services. Orbis, the shared services partnership with East Sussex County Council and Brighton & Hove City Council continues to deliver efficiencies. Orbis includes 2,000 staff across the three councils and drives savings by sharing business services across areas. The partnership is established under a joint committee which is responsible for delivering services from a joint operating budget.

Following the appointment of a Chief Internal Auditor for Orbis, the Internal Audit function has been developing its joint working practices and the fully integrated structure went live in April 2018. In addition to the three Orbis partners, Horsham District Council joined Orbis Internal Audit in April 2018, further strengthening the offering to sovereign authorities.

The Council currently engages and consults with residents and partners using a number of methods which include paper and electronic surveys, face to face engagement and social media. The Council has a dedicated consultation hub 'Surrey Says' where most consultations are published. As well as the consultations, the site also features a 'We Asked, You Said, We Did' section where the Council provides feedback on the actions taken or not taken as a result of consultation.

FOCUS FOR 2018/19

Under the leadership of the new Chief Executive, a Corporate Leadership structure has been introduced, adding much needed senior capacity and capabilities to the Council. Recruitment to all roles will be completed in summer 2018. The Leader and Members have set out their priority for the Chief Executive and the Corporate Leadership team to put in place a significant programme of transformational change to ensure the Council can deliver good outcomes, within a sustainable resource envelope.

The Council continues to face pressures from increasing demographic demands and changing expectations of residents in the context of decreasing funding from Central Government. In order to achieve a balanced budget in 2018/19, the Council has utilised a range of one-off funding methods and in addition, the level of savings required continues to be significant at £66m. A stronger control framework of tracking and monitoring savings, pressures and the overall budget throughout the year, through redesigned data packs, is being put in place to ensure delivery of these savings, as well as achievement of the budget overall. This will include a monthly report to the Corporate Leadership Team (CLT) on financial and service performance issues that provides key information and highlights variances.

Looking ahead to 2019/20 the scale of the budget challenge means the Council must set clear priorities, transform service delivery and introduce a new operating model. The County Council will be asked to agree a new Vision at its meeting in October 2018 followed by revised priorities and an outline budget in November 2018. These are important foundations to govern our focus for the next few years.

During 2018/19, the Council will need to approve and initiate a major transformation programme to deliver better outcomes as well as contribute to the £250m gap the Council faces. Robust programme management, governance and control mechanisms will be in place to deliver the benefits. Significant change capacity will need to be applied, alongside a deep culture change programme. Appropriate use of capital receipts will underwrite the cost of the programme and be tracked on a regular basis. CLT will meet fortnightly as a Transformation Steering Board and an officer and Member Change Management Board has been established, providing a key part of the governance arrangements. Standardised reporting of project progress is being developed and will be regularly monitored by CLT. The Council will engage closely with staff, residents and partners to develop and then implement this service transformation with a close focus on improved outcomes for those in need of our support.

In parallel, the Council continues to work to ensure Government understands the impact of current funding mechanisms on Surrey and inform any proposals for reform affecting local government. When the prospectus for the 2019/20 business rate retention pilot is issued, the Council will look to compile a strong application to secure a continuation of the business rate pilot. The Council will also take all opportunities to input into the fair funding review being carried out by the Ministry for Housing, Communities and Local Government and the emerging Social Care Green Paper led by the Secretary of State for Health and Social Care.

The Surrey Heartlands devolution agreement between the Council, three Clinical Commissioning Groups, NHS England and NHS Improvement will bring further opportunities to work differently with our partners in driving the integration of health and social care. An Integrated Commissioning Joint Committee, which was in shadow form in 2017/18, will become a formal committee in summer 2018. The Joint Committee is responsible for developing proposals for a joint Commissioning Strategy and for overseeing the development of the devolution/integrated commissioning governance arrangements and includes representatives from the County Council, the 3 Clinical Commissioning Groups and NHS England.

A key challenge for 2018/19 will be to transform services for children and families in Surrey, which will require strong leadership, effective management oversight and robust assurance. Significant changes to the Children's Improvement Board and Corporate Parenting Board will be put in place during summer 2018, including membership, roles and responsibilities, to ensure there is a clear focus on the improvement journey. We will also be engaging with other authorities and statutory bodies – along with Members and our key strategic partners – and adopting proven governance mechanisms that represent best practice to ensure we get this right.

We continue to face a growing and complex need for our learning disability services. It is important that we improve ways of working to manage these increasing demands and enable better outcomes. We know that key to achieving this is more joined up working between Adult Social Care, Children, Schools and Families and health which will ensure a more holistic approach is taken to supporting someone throughout their lifetime. We aim to enable adults with learning disabilities and their families to be able access support from a single countywide team, enabling us to better support our residents in the future.

Other areas of focus include:

- The need for a controls review has been identified in relation to the mechanisms and controls in place for assessing and approving care packages and accurately forecasting future costs, in both Children's and Adults Services. This controls review will be carried out during 2018/19 by internal audit and will prioritise the focus of this work on those areas where there is a higher risk in terms of the control environment and levels of expenditure;
- Reinforcing and supporting a culture of compliance through appropriate information, communication and training. To assist with this the Council is introducing a requirement for senior leaders and budget holders to reflect sound governance related goals in their annual performance accountability contract / objectives;
- The Council's Financial Regulations were updated in May 2018. A more fundamental review of these regulations will be carried out during 2018/19, in conjunction with a review of the Constitution;
- There will be review of the Leadership Risk Register to ensure both the identified risks and the mitigating actions are appropriate and effective;
- The Chartered Institute for Public Finance and Accountancy (CIPFA) has been commissioned to carry out a review of the financial capacity and capability of the finance function across the organisation. The conclusions of this review will be used to develop and implement an improvement programme to increase overall effectiveness of financial management across the Council;
- Make a permanent appointment to the role of Head of Legal and Democratic Services;
- Pensions pooling - building the investment structure and obtaining Financial Conduct Authority approval for its operation;
- The Council has recently appointed a Data Protection Officer who will lead on the work required to ensure the Council meet its obligations in relation to GDPR compliance;
- Implementing a new pay structure.

In light of the significant changes and challenges facing the organisation it has become increasingly important to ensure a robust and effective assurance framework is in place. The scale of the challenges facing the Council are significant and will require strong leadership and focus. 2018/19 will be a year of change, under the leadership of the new Chief Executive and a new Corporate Leadership structure. The Council is undergoing a significant programme of transformational change in order to achieve financial sustainability in the future and it is therefore essential that the Council's activities are underpinned by robust governance and control mechanisms to enable us to deliver our new shared vision and ensure we deliver good outcomes for our residents.

The 2017/18 annual review of governance was overseen by the Governance Panel (the panel) which comprised the Monitoring Officer [chair], Finance Manager (Assets and Accounting), Internal Audit Manager, HR Manager – Strategic Support, Head of Strategy and Performance and the Risk and Governance Manager. The panel met four times during the year and reported to the Statutory Responsibilities Network and the Audit and Governance Committee. The 2017/18 annual review of governance has identified a number of areas where improvements to governance arrangements are required.