

**SURREY COUNTY COUNCIL**

**CABINET**

**DATE: 25 SEPTEMBER 2018**

**REPORT OF: MR DAVID HODGE, LEADER OF THE COUNCIL**

**LEAD OFFICER: LEIGH WHITEHOUSE, INTERIM FINANCE DIRECTOR**

**SUBJECT: FINANCE IMPROVEMENT PLAN**



#### **SUMMARY OF ISSUE:**

In May 2018 the Leader and Chief Executive commissioned the Chartered Institute of Public Finance and Accountancy (CIPFA) to undertake a review of the Council's finances and finance function. This was to focus on three areas:

- the extent the finance function had the right capacity, skills and competencies to meet the transformation agenda and financial stewardship;
- the finance related organisation and service delivery undertaken by the Orbis partnership;
- the extent to which had moved forward had moved forward in delivering against the budget challenges from work undertaken since the previous CIPFA report in 2017.

CIPFA reports that the Council is in a difficult financial position – see Annex 1. Without major change, the Council will not have sufficient income or reserves to meet existing spending plans in the MTFP. To address this the council needs to improve its financial management arrangements, both within the Finance Service and beyond.

The finance improvement plan (see Annex 2) sets out the specific actions needed to remedy this position, together with the respective delivery responsibilities of Cabinet, Executive Officers on the Council Leadership Team, and the Finance Team.

#### **RECOMMENDATIONS:**

It is recommended that Cabinet:

1. Notes the key findings of the CIPFA review and affirm their commitment to addressing the issues identified.
2. Approves the finance improvement plan set out in Annex 2.
3. Agrees the tasks, actions and deliverables assigned to the Cabinet on pages 4-6 of the finance improvement plan and specify Member responsibilities for their delivery.

## **REASON FOR RECOMMENDATIONS:**

Remedying the financial position the Council faces will require the commitment of Members and Officers to make difficult decisions on where savings can be made. Supporting the finance improvement plan will demonstrate that the Council has the collective drive to resolve the financial difficulties outlined in the CIPFA review.

## **DETAILS:**

1. CIPFA undertook a review, dated July 2018, of the Council's financial resilience. The report confirmed that there are insufficient reserves to meet the expected budget gap in 2019/20 unless urgent changes are made. The Medium Term Financial Plan confirms that gross expenditure is expected to increase by 6.5 per cent from £1.68bn in 2017/18 to £1.79bn in 2020/21, whereas gross funding from increased Council Tax and reduced government grants is expected to increase by only 2.4 per cent from £1.66bn to £1.70bn over the same period. This would result in a funding gap of £36m in 2018-19, rising to £86m by March 2020, and to £94m by March 2021.
2. CIPFA identified a number of key factors that had contributed to this situation:
  - A lack of confidence in the financial estimates and progress reports submitted by the Finance Service. This has arisen due to weaknesses in the underlying performance data that have generated volatility in the estimates presented.
  - Underachievement of budgeted savings in recent years
  - A risk averse culture whereby there is little incentive to challenge existing practices or to raise standards of financial management.
  - A lack of financial discipline across the Council. Budget delegations have not been formalised, leading to limited accountability and ownership amongst budget holders. As a consequence, there is a lack of granularity in a number of the estimated financial pressures and changes facing the Council, and considerable uncertainty over the delivery of some key planned savings.
  - Orbis had not provided sufficient quality of service, economies of scale or resilience in the Finance function and uncertainty is inhibiting further integration.
3. The proposed finance improvement plan has been developed in consultation with CIPFA to address the issues raised in their review. The focus of the plan is on:
  - **Building a financial discipline that is fit for purpose.** Actions include up-skilling and re-structuring the Finance team, improving the quality of financial estimates generated, and raising standards of financial management across the Council.
  - **Addressing the financial challenges that the Council currently face.** Actions include securing consensus on the scale of the financial

challenges ahead, delivering sufficient savings in 2018-19, as well as setting and delivering a balanced budget for 2019-20 whilst meeting statutory duties.

4. The improvement plan details the specific actions, tasks and deliverables required from Cabinet, the Executive Officers of the Council Leadership Team, and the Finance team. The Interim Finance Director will be the Senior Responsible Owner for the plan, and progress will be overseen by the Council's existing Change Management Board.

#### **CONSULTATION:**

5. All Cabinet Members have had the opportunity to discuss the findings with the CIPFA review team.

#### **RISK MANAGEMENT AND IMPLICATIONS:**

6. Failure to address the issues raised in the CIPFA review could necessitate the appointment of Commissioners tasked with cutting the Council's services to the minimum required by law.
7. The key risks associated with the finance improvement plan that will need to be managed are:
  - Budget holders and Members fail to make the savings needed in 2018/19 to offset the projected shortfall, reducing the capacity to deliver a balanced budget in 2019/20. This risk will be managed by regular scrutiny of each budget holder's savings delivery plans and associated plans to mitigate inflation and demand pressures. The scrutiny will be supported by commissioning CIPFA to undertake a deep dive review on issues of concern and the appointment of a panel of experts to quality assure progress assessments.
  - Public concern over potential cuts to services leads to delays or even the failure to agree a realistic budget for 2019/20. The finance improvement plan includes the development of a communications strategy to support Members and Officers in engaging the public on the issues facing the Council and, where required, consultation and Equalities Impact Assessments will be undertaken.
  - Budget holders and Members fail to identify and deliver sufficient savings in 2019/20. Responsibilities will be clarified through a series of seminars with Officers and by ensuring all budget holders agree a Budget Accountability Statement that specifies what they are expected to deliver within their delegated budget.
  - The re-organisation of the Finance Service adversely impacts on morale, thereby reducing capacity to monitor progress and to drive through the financial reforms required. The team commissioned to re-organise the Finance team will consult regularly key staff. Furthermore, capacity is being bolstered through recruitment for additional interim finance posts and by retaining CIPFA support for the remainder of 2018/19.

### **Financial and Value for Money Implications**

8. The improvement plan considers value for money throughout. The costs associated with the finance improvement plan comprise the following;

|  |          |
|--|----------|
| Review of finance function and support with MTFP | £135,000 |
| Support with cultural change                     | £30,000  |

9. This improvement plan will underpin the necessary skills, processes and governance to support the transformation of the council's services. This Improvement Plan underpins the council's transformation programme, and will be funded from the Transformation Fund

### **Section 151 Officer Commentary**

10. The Council has a statutory duty to ensure that its expenditure does not exceed the resources available. The Section 151 Officer concurs with the assessment by CIPFA of the financial difficulties facing the Council and confirms that these forecasts are based on reasonable assumptions, taking into account all material, financial and business issues and risks.
11. The Council's existing reserves are not sufficient to cover the projected budget gap in 2019/20 unless the planned savings are delivered and existing demand and inflationary pressures are adequately managed. The scale of savings required is considerable and unprecedented in the Council's history. It is incumbent on all Council Members and Officers to prioritise the actions specified in the finance improvement plan in order to minimise the adverse impacts on residents and to avoid reputational damage to the County.

### **Legal Implications – Monitoring Officer**

12. The Council is under a duty to set a balanced and sustainable budget. The Finance Improvement Plan will assist the Council to take steps to ensure that its expenditure (that is expenditure incurred already in year and anticipated to be incurred) does not exceed the resources available, whilst continuing to meet its statutory duties. Cabinet should be aware that if the Section 151 Officer, at any time, is not satisfied that appropriate strategies and controls are in place to manage expenditure within the in-year budget they must formally draw this to the attention of the Cabinet and Council and they must take immediate steps to ensure a balanced in-year budget.
13. To achieve this progress, significant service transformation and efficiencies will be required that may impact on public facing services. Where specific savings proposals require it, a public consultation will be carried out and the results of the consultation will be conscientiously taken into account in the final decision making. Members will also need to be sufficiently informed about the equalities implications of the proposals, as set out in the section below.

### **Equalities and Diversity**

14. Any impacts on equality and diversity from the actions in the finance improvement plan will be evaluated by the Responsible Owners specified as part of their implementation.

15. In approving individual savings proposals developed under the Finance Improvement Plan, the Council must comply with the Public Sector Equality Duty in section 149 of the Equality Act 2010 which requires it to have due regard to the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
16. Where Cabinet is required to take specific decisions about the implementation of savings proposals, an equalities analysis will be presented at the point where a decision is made. This will be submitted alongside relevant Cabinet reports. Services will continue to monitor the impact of these changes and will take appropriate action to mitigate additional negative impacts that may emerge as part of this ongoing analysis.

#### **Other Implications:**

17. The delivery of savings required in 2018-19 and in 2019-20 will have significant implications for Council priorities and policy areas. The impact of these savings will be brought to the attention of the Cabinet as and when savings targets are agreed.

#### **WHAT HAPPENS NEXT:**

18. The finance improvement plan sets out the deadlines for each action. Next steps involve:
- Appointing a project manager to develop a detailed implementation plan in conjunction with each Responsible Owner with associated milestones.
  - Confirming ownership of the deliverables specified in the plan with each Responsible Owner.
  - Inviting Cabinet to approve the proposed budget for 2019-20 in autumn 2018.
  - Regularly reporting to the council's Transformation Steering Board and the Change Management Board on progress on each action in the plan.

#### **Contact Officer:**

Kevin Kilburn, Deputy Chief Finance Officer  
Tel. 020 8541 9207

#### **Consulted:**

Cabinet, Council Leadership Team, Heads of service.

#### **Annexes:**

Annex 1: CIPFA report  
Annex 2: Finance Improvement Plan

#### **Sources/background papers:**

The CIPFA report was based on consultations with Members and Officers, as well as a range of finance and budget papers provided by the Finance team.

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