

SURREY COUNTY COUNCIL**CABINET****DATE: 20 JULY 2021****REPORT OF CABINET MEMBER: BECKY RUSH, DEPUTY LEADER AND CABINET MEMBER FOR FINANCE AND RESOURCES****LEAD OFFICER: LEIGH WHITEHOUSE, EXECUTIVE DIRECTOR, RESOURCES****SUBJECT: JOINT WORKING ARRANGEMENTS FOR FINANCE SERVICES WITH TANDRIDGE DISTRICT COUNCIL****ORGANISATION STRATEGY PRIORITY AREA: GROWING A SUSTAINABLE ECONOMY SO EVERYONE CAN BENEFIT/ TACKLING HEALTH INEQUALITY/ENABLING A GREENER FUTURE/EMPOWERING COMMUNITIES****Purpose of the Report:**

Surrey County Council ('SCC') has been providing support to Tandridge District Council ('TDC') through the part-time secondment of its Director of Corporate Finance to act as the Tandridge s151 officer, as well as a full-time secondment of a finance business partner post since August 2020.

At the TDC Strategy & Resources Committee on 25th March SCC presented a proposal to broaden this arrangement into the provision of a more comprehensive package of finance support covering both the finance service and financial management more generally within TDC, including the development and delivery of a Transformation programme (Tandridge Finance Transformation, 'TFT').

This was formally approved at the meeting and subsequently officers from SCC have developed a new model for the TDC finance function, a roadmap, an investment business case for the TFT programme and an associated Joint Working Agreement for Finance Services which would provide the legal basis for the partnership between SCC and TDC.

This was presented to TDC senior Members and Officers on 17th June and received their support to go forward for formal endorsement at the Strategy & Resources Committee on 6th July.

The purpose of this report is to seek approval to SCC's continuing support for the finance partnership with TDC, the TFT Plan and the resources necessary from SCC officers to support its successful delivery within TDC. Subject to this, to also approve the creation of a Joint Working Agreement following satisfactory negotiation of the detailed arrangements.

Recommendations:

It is recommended that Cabinet:

1. Approve the continued development of the Finance Services partnership with Tandridge DC through the development and delivery of the Tandridge Finance Transformation Programme.

2. Approve the commitment of the necessary SCC officer time to support the successful delivery of the TFT plan within TDC.
3. Approve the development of a Joint Working Agreement with TDC and delegate its final approval to the Executive Director, Resources, subject to the satisfactory negotiation of the details of the working arrangements.

Reason for Recommendations:

TDC faces challenges both in terms of needing to improve its financial health and the capacity and capability of the finance function. SCC has been providing support to the TDC finance function since August 2020 during which time formative progress has been made. There is now a need to broaden the scope of the work to ensure that the changes identified as necessary (both within the TDC finance function and more widely across TDC) can be delivered.

A transformation plan ('TFT') has been developed which identifies a new operating model for the TDC finance function and includes a business case for the necessary investment to support the delivery of the TFT plan. This plan will involve the commitment of officer time from SCC to ensure its successful delivery. A Joint Working Agreement will provide the formal legal basis for the governance of the partnership and clarify the expectations of both Parties.

The development of the finance partnership with TDC supports the delivery of one of the SCC key objectives which is to develop Stronger Partnerships with other public services.

The successful delivery of the TFT plan will assist TDC to emerge with a stronger underlying financial position and a finance function which is capable of sustaining this over the longer term.

Executive Summary:

Background

1. At the TDC Strategy and Resources Committee meeting on 25th March it was agreed to proceed to an agreement with SCC to provide TDC with a comprehensive finance function incorporating the s151 role, leadership and management of a full range of financial functions and the development and delivery of the TFT Plan.

It was also agreed to establish a small TDC Member and Officer Reference Group (MRG) to monitor progress with delivery of the TFT plan. The MRG is made up of the TDC Group leaders, the Chair of Strategy and Resources, the Chief Executive, the Executive Head of Corporate Services, the Head of Legal Services and Monitoring Officer, the Chief Finance Officer and the TFT Programme Manager.

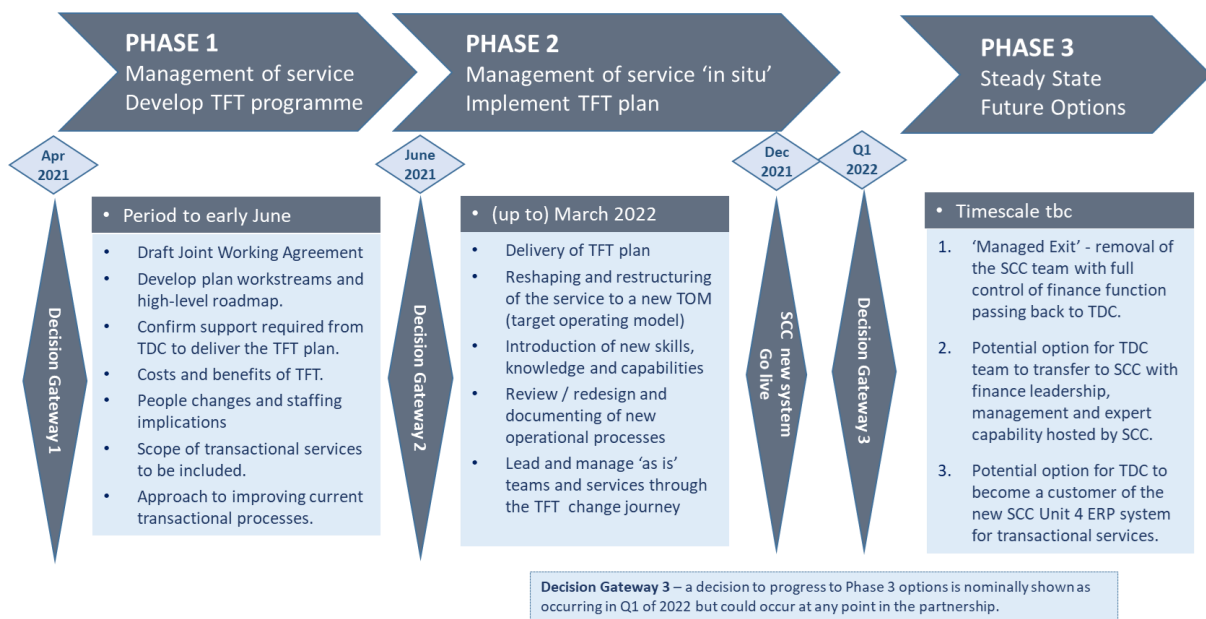
2. SCC have set out a 3-phase approach to developing the partnership as shown in the diagram below:
 - **Phase 1:** Initial due diligence leading to a formal agreement between SCC and TDC.
 - **Phase 2:** Tandridge Finance Transformation (up to March 2022) - this phase will enable the restructuring of the finance function, improvement of key processes, development of business partnering and strengthening of budget accountability. During this period, staff will remain on TDC employment contracts, and any

restructuring undertaken will be in accordance with TDC change management procedures.

- **Phase 3:** Ongoing operation - this will be a “steady state”; there will be strategic choices for TDC to make about the future basis of employment of finance staff; and around access to SCC’s new financial systems.

It is at this point that SCC and TDC could consider the option of a ‘managed exit’ which would see the removal of the SCC team over a period of time with full control of the finance function passing back to TDC.

Overall phased approach to developing the partnership



3. Decision gateways

The SCC proposal includes 3 Gateway decision points at each of which either SCC or TDC could decide to continue, pause or stop with no additional commitment beyond that already made at each Phase.

Gateway 1 - to decide whether to undertake a period of due diligence during which SCC would develop the TFT plan.

Gateway 2 - to decide whether to proceed with the delivery of the TFT plan once the costs and implications are known.

Gateway 3 – to decide whether to progress with any of the future options identified in Phase 3, which could involve a longer-term service agreement with SCC or a managed exit. This gateway is shown as occurring in Q1 of 2022 but could occur at any point during Phase 2.

- 4. **Phase 1**, the initial due diligence phase, has been completed and a number of areas for improvement have been identified within the TDC finance function itself, within Exchequer Services and within the financial management of TDC more widely. The detailed findings are included within the Annex to this report.

This phase has involved extensive engagement with TDC staff with their insights being used to inform the priorities for change within the TFT plan.

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SCC presented their findings, proposals and recommendations to the TDC MRG on 17th June. At this meeting, the MRG noted the progress with developing the TFT plan, the development of a new operating model for the finance function and the drafting of a Joint Working Agreement to provide a legal basis for the partnership going forward.

These proposals identify investments from TDC which are considered necessary to transform the finance function, develop a strong culture of financial management and accountability across TDC and deliver a transformation in the Exchequer Services function.

The MRG agreed to recommend the proposals in full, including the necessary investments, for formal approval by the TDC Strategy and Resources Committee on 6th July.

It was also agreed to request authorisation for the TDC Chief Executive to approve the Joint Working Agreement and the final detailed operating model with SCC, following further detailed discussion and consultation with Group Leaders and the Chair of Strategy & Resources Committee.

A report has been prepared for consideration by the TDC Committee and is attached as an Annex to this report. A verbal update on the decision of the TDC Committee and any further relevant issues arising will also be given at Cabinet on 20th July.

Provided the TDC report is approved and SCC Cabinet give their approval to this report, the TFT programme would move into Phase 2.

Implications of the partnership and TFT plan for Surrey County Council

5. **Phase 2** - it is important to note that in proceeding to Phase 2, SCC will not be taking on responsibility for the underlying financial position of TDC. Nor will SCC be taking over control of the TDC finance function.

The model proposed by SCC envisages a relationship whereby TDC are 'buying-in' support from SCC employees to help them reach and sustain a stable and healthy financial position. As part of this SCC will be committing to providing TDC with finance leadership, management oversight, support and guidance along with a transformation roadmap (the TFT plan) which is central to sustaining the financial recovery of TDC.

SCC are not however taking on responsibility for that being achieved. Responsibility for the actions necessary to achieve its successful delivery and any necessary investments will continue to rest with TDC.

6. **New Finance Operating Model**

The proposal from SCC includes a re-shaped finance operating model and staffing structure for TDC which addresses areas where the team lacks capacity and capability and is in need of leadership and development.

This structure aligns with the SCC finance function structure and is made up of a blend of Tandridge directly employed staff and senior members of the SCC finance team who will provide management oversight and (in some cases) direct delivery of services.

At the core of the model is a strengthening and investment in the in-house TDC directly employed finance team.

As part of this new operating model SCC will take on management oversight of areas of TDC Corporate Finance including:

- Budget preparation and monitoring
- Closure of accounts
- External Audit engagement
- Capital Programme management
- Treasury management
- Corporate returns
- Fees and Charges
- Collection Fund

SCC will in addition also provide best practice and development support to the Finance Business Partner & Exchequer functions.

This will provide TDC with resilience and access to expertise in relevant corporate finance fields, guidance, support and mentoring for service facing business partners and release capacity to support transformation and service development.

In practice this means that several members of the SCC Finance team (including Business Operations) will be spending a proportion of their time working for TDC going forward and acting under a formal s113 agreement.

7. **Development and delivery of the TFT programme**

Under the JWA, SCC will support TDC through the development and delivery of the TFT programme. This programme sets out 5 workstreams which taken together will transform the finance function and the role of finance within TDC. The overriding purpose of each is set out below:

a) **New Finance Model**

A right-sized, re-shaped and strengthened model and staffing structure. This is a blend of TDC directly employed staff and senior members of the SCC finance team who will provide management oversight, best practice guidance and where applicable direct delivery of services.

b) **SCC transition**

A transitioning in of the SCC finance team to provide management oversight, best practice guidance and (in some cases) take on delivery of services to TDC.

c) **Organisational Development**

Strengthened overall financial management, increased budget holder ownership and accountability, increased grip over and adherence to key corporate processes and controls across TDC, allowing better identification and management of financial risks.

d) **Exchequer Transformation**

A transformed Exchequer function with a reshaped team, a new set of business rules and controls, a refined set of documented processes with clear ownership and performance metrics underpinned by an optimised use of the core financial systems.

e) **Deliver the Budget**

This workstream will ensure a continuing focus on delivering the 2021/22 budget and the savings required to ensure a robust future financial position is established going forward.

8. **Mutual expectations**

The JWA sets out the expectation that the agreed TFT programme of work is to be fully supported by each of the Parties and that they will seek to bring their respective skills, abilities and resources together to ensure that the benefits identified are delivered in line with the programme. It also includes the provision for corrective action where the time spent on the TFT programme is not in line with the benefits being achieved.

It is important to note that, as part of this, SCC is agreeing to devote an appropriate amount of officer time to the development and delivery of the TFT programme of work for example by providing Programme Management and additional senior finance business partner support to the delivery of the improvements necessary.

The JWA includes the mutual expectation that the investment of SCC officer time is provided to TDC on the understanding that:

- a) TDC remains fully engaged with and committed to delivering the benefits identified in the TFT programme of work.
- b) TDC is willing and able to fund additional direct costs which are directly attributable to and associated with the delivery of identified benefits within the programme of work (such as the investments identified above).

A record of the costs associated with developing and delivering the TFT programme of work will be monitored and managed through the TFT Programme Board. This will include both direct costs and officer time where this is devoted to working specifically and solely on TFT activities.

Where, in the assessment of the TFT Programme Board, the mutual expectations set out above are not being met or the time being expended is not proportionate to the benefits being realised through the TFT Programme, the Board will take corrective action to address this and report those actions to the Member Reference Group (MRG).

These actions may include (but are not limited to) a review of the scope of the TFT programme and/or a reduction in the officer time allocated to it.

9. **Service Charge**

In respect of the above, SCC will levy a Service Charge on TDC. This is intended to reflect and be directly linked to an apportionment of the estimated amount of SCC staff time devoted to providing the necessary management oversight, leadership, support and any other identified services.

The Service Charge will be set at a level intended to recover the relevant proportion of direct staff costs for each member of staff plus a 5% overhead recovery to reflect directly attributable overheads.

The estimated amount of officer time anticipated to be spent on TDC activities varies with the Chief Finance Officer (s151 role) set at 50% and other roles typically set at c10%.

The overall estimated level of the Service Charge from SCC is £155k per annum which is intended to start from 1st October. The Service Charge will change annually (up or down) directly in line with any change to the direct costs of employment (ie annual pay awards, NI or pensions contributions changes).

Any other proposed changes (up or down) to the Service Charge will come into effect only following due consideration through the Annual Review and following the appropriate internal governance for each of the Councils.

Any additional costs or savings which flow directly from the work will be directly attributable to the relevant Council receiving the benefit of the work undertaken. Where savings identified are attributable to both Councils (for example in a shared contracting arrangement), the basis of any saving share or cost attribution will be agreed in advance.

10. **Joint Working Agreement (JWA)**

It is proposed to put in place a JWA to act as the legal basis for the partnership. An initial draft of the JWA has been produced and this will be further developed between the Councils and ready for formal approval by the end of July.

Key elements of the JWA will include:

- a) Aims and Objectives of the Finance partnership
- b) Financial Protocol
 - TDC to fund the cost of implementing the new finance operating model
 - SCC to recover its costs via a Service Charge linked to the officer staff time involved
- c) Mutual expectations
 - SCC will commit officer time to support the development and delivery of TFT;
 - TDC will commit officer time and fund any direct costs of TFT;
 - TDC will commit to support the successful delivery of TFT
- d) HR protocol
 - SCC staff time will be shared with TDC under a s113 agreement
 - TDC and SCC staff will each remain subject to their employing Council rules
- e) Provision for Annual Review

There is provision within the JWA for the arrangement to be formally and jointly reviewed on an annual basis to ensure it continues to meet the needs of both Councils.

- f) Provision for Conflicts, Disputes and Termination

There is provision within the JWA to manage the resolution of disputes through mediation and to allow for termination of the arrangement following a twelve-month notice period (or sooner by mutual agreement).

In circumstances of a material breach by either party that cannot be remedied, three months' notice of termination can be given (by either Council).

Consultation:

11. Formal consultation has been undertaken with TDC senior Members and Officers through the MRG (membership as above) to seek their views and to inform the drafting of this report.
12. Additional engagement has been undertaken with senior officers, staff conference and the TDC finance team as part of the due diligence phase and development of the proposals.
13. The SCC Cabinet Member has been kept fully informed and engaged in the development of the SCC proposals and plans.
14. A briefing has been arranged with the Chair of the Resources and Performance Select Committee and any comments arising from that discussion will be added into the final report.

Risk Management and Implications:

15. Officers have identified several risks and issues which apply to the TFT programme and the partnership between the Councils. The key risks that relate specifically to SCC are the first and last of those in the table below:

Description of risk / issue	Overall approach to addressing risk / issue
Reputational damage if the partnership doesn't work out as both councils hope and which leads to a break up of the partnership.	Manage progression of the partnership through gateways. Ensure that decision making is transparent. Deliver identified benefits of the programme. Engage with and inform key stakeholders to maintain confidence.
The New Finance Model and associated costs of change may be too expensive for TDC to support	Seek to contain the costs of the new Finance model as far as possible.
The Exchequer Services Change Plan may be too expensive for TDC to support (and/or the business case is rejected).	Make the benefits case clear and identify sources of funding from with TDC (explore use of flexible capital receipts).
Some TDC finance staff may respond negatively to proposed changes to the finance function.	Develop ways to involve the TDC finance team in the TFT programme. Identify and manage risk areas of activity in transition to the new Finance Model.
SCC officers are perceived as investing too much time and effort into Tandridge at the expense of other activities and SCC is perceived to suffer as a result.	Manage the amount of officer time invested through the TFT Programme Board. Establish a clear set of mutual expectations between TDC and SCC in the Joint Working Agreement (JWA).

- i) Reputational damage should the partnership fail to achieve the desired ambitions for it. It is important to note that SCC will not be taking on responsibility for the financial position of TDC. Responsibility for the actions necessary to achieve the successful delivery of the TFT programme and any required investments will continue to rest with TDC. The progression of the partnership will be managed through formal gateways and TFT programme governance. If the partnership is not achieving the objectives set there is provision in the JWA for termination by one or other Council.

- ii) SCC officers invest too much time on TDC activities at the expense of SCC objectives and priorities. SCC officers believe that there is adequate capacity built into their existing teams to manage the amount of staff time anticipated without any detriment to SCC. This will be closely monitored through the TFT programme governance.

These and the other risks identified will be actively managed by the Programme Manager and TFT Programme Board during the development of the partnership and the delivery of the TFT programme.

Financial and Value for Money Implications:

- 16. The JWA includes a Financial protocol which sets out the arrangements for the recovery of SCC costs for services provided to TDC and how these are to be agreed between the Parties. The expectation is that this will generate a revenue to SCC of c£155k per annum which will be used to offset the costs of officer time spent on TDC activities.

Section 151 Officer Commentary:

- 17. Although significant progress has been made over the last twelve months to improve the Council's financial position, the medium-term financial outlook beyond 2021/22 remains uncertain. The public health crisis has resulted in increased costs which may not be fully funded. With uncertainty about the ongoing impact of this and no clarity on the extent to which both central and local funding sources might be affected in the medium term, our working assumption is that financial resources will continue to be constrained, as they have been for the majority of the past decade. This places an onus on the Council to continue to consider issues of financial sustainability as a priority in order to ensure stable provision of services in the medium term.
- 18. The Section 151 Officer is fully supportive of the approach outlined and notes that the TFT plan is central to sustaining the financial recovery of Tandridge District Council by supporting the strengthening of financial management capability and capacity across the Council, significant enhancements to its core processes, tighter financial control and the use of systems.
- 19. It is also recognised that the amount of time spent by officers from the SCC Finance team will need to be managed to ensure that this remains proportionate both to the costs recovered by SCC and the benefits achieved and that this does not prevent the achievement of other SCC priorities.

Legal Implications – Monitoring Officer:

- 20. The proposed legal relationship between the Authorities is described above. Section 113 of the Local Government Act 1972 allows a local authority to enter into an agreement with another authority for the placing at the disposal of the latter for the purposes of their functions, on such terms as may be provided for by the agreement, of officers employed by the former. Officers placed at the disposal of the "borrowing" authority are treated as an officer of that authority for the purposes of all their statutory functions whilst remaining an employee of the "lending authority" for employment law purposes. The nature of section 113 means that no direct EU procurement issues arise in relation to the proposed agreements.

Equalities and Diversity:

21. It is not foreseen that there are any direct equality implications because of the recommendations in this Report. Options will be rigorously assessed as the TFT plan progresses.

Other Implications:

22. The potential implications for the following council priorities and policy areas have been considered. Where the impact is potentially significant a summary of the issues is set out in detail below.

Area assessed:	Direct Implications:
Corporate Parenting/Looked After Children	None identified
Safeguarding responsibilities for vulnerable children and adults	None identified
Environmental sustainability	None identified
Public Health	None identified

What Happens Next:

23. Next steps following approval of this Report are as follows:

- a. Finalisation of the Joint Working Agreement between the Councils (to be completed by the end of July).
- b. Further detailed due diligence and planning by SCC officers (to be completed by the end of September) in preparation for taking on financial management responsibilities from 1st October (or as agreed).
- c. Delivery of the programme of work set out in the TDT plan (to be completed by the end of March 2022).

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Consulted:

Consultation has been undertaken with:

- TDC senior Members and Officers as set out above.
- SCC senior Officers
- SCC Cabinet Member
- Other TDC and SCC officers as part of the due diligence phase.

Annexes:

Annex 1- Joint Working Arrangements for Finance Services - Report to the TDC Strategy & Resources Committee of 6th July 2021.

Sources/background papers:

Report to TDC Strategy & Resources Committee, 25th March 2021.

SCC Finance Support Proposal to TDC, 8th March 2021 (published in the above Report).

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