

Auditor's Annual Interim Report on Surrey County Council

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2021/22

January 2023

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We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. 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.

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Executive summary



Value for money arrangements and improvement recommendations

Under the National Audit Office (NAO) Code of Audit Practice (‘the Code’), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council’s arrangements under specified criteria and 2021/22 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

Criteria	Risk assessment	2020/21 Auditor Judgment		2021/22 Auditor Judgment		Direction of travel
Financial sustainability	No risks of significant weaknesses identified		No significant weaknesses in arrangements identified, but improvement recommendation made		No significant weaknesses in arrangements identified, but improvement recommendation made	↔
Governance	Potential risks of significant weakness owing to Ofsted rating of children’s services, and issues with pensions administration		Significant weakness in arrangements identified and key recommendations made		The Council has, as planned, addressed the significant weakness. We have raised one improvement recommendation	↑
Improving economy, efficiency and effectiveness	No risks of significant weaknesses identified		No significant weaknesses in arrangements identified, but improvement recommendation made		No significant weaknesses in arrangements identified or improvement recommendation made	↑

- No significant weaknesses in arrangements identified or improvement recommendation made.
- No significant weaknesses in arrangements identified, but improvement recommendations made.
- Significant weaknesses in arrangements identified and key recommendations made.

Executive summary



Financial sustainability

Despite the ongoing uncertainty in Local Government funding, the Authority has maintained an improved financial position. The Authority has put forward a series of proposals which forecast a balanced budget for 2022/23. However, the MTFS identifies a funding gap of £178 million over the next 5 years. Savings of c£40m per year are identified as being necessary to address this.



Governance

Our work this year has focussed on developing a detailed understanding of the governance arrangements in place at the Authority. Last year we identified two significant weaknesses in the Governance processes in pensions administration and Children's services and had concerns over the arrangements for risk management.

The Council has continued to deliver its transformation programme in pensions administration and risk management arrangements have continued to develop and are now embedding in the organisation. This has alleviated our concerns in these areas.

At the time of our last report an Ofsted inadequate rating over children's services was in place. A subsequent report, published in March 2022, has rated the Council as "Requires Improvement to be Good" and the Council is no longer in intervention. This means that we no longer feel there is a significant weakness in this area. Indeed the Council continues to implement its improvement plans apace.



Improving economy, efficiency and effectiveness

The Council's organisation strategy is at the centre of what it does and is referred to throughout most of the key strategic documents and reports presented to members, including the budget and MTFS. We are satisfied that adequate arrangements are in place to improve economy effectiveness and efficiency across the range of Council services.



Our audit of your financial statements is in progress and is currently estimated to complete at the end of January 2023.



Opinion on the financial statements and use of auditor's powers

We bring the following matters to your attention:

Opinion on the financial statements

Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the Council's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22

Our audit of your financial statements is in progress and scheduled to complete by 31 January 2023.

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

We did not issue any statutory recommendation during 2021/22.

Public Interest Report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We did not issue any Public Interest Report during 2021/22.

Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We did not issue any application to the Court during 2021/22.

Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

We did not issue any advisory notice during 2021/22.

Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

We did not issue any judicial review during 2021/22.

Securing economy, efficiency and effectiveness in the Council's use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



Financial Sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 7 to 23 . Further detail on how we approached our work is included in Appendix B.



Financial sustainability



We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

The Covid-19 pandemic has been the largest peace time emergency seen in this country for over 100 years. The knock-on effects on local government finance have meant shortfalls in income due to cessation of services and reduction in collection of both Council Tax and Business Rates. There has also been a loss of commercial income in such areas as commercial rents, while government grants have covered part of the general shortfall, councils have been dealing with increased financial uncertainty. During 2021/22 we moved out of the cycle of lockdowns and other restrictions, the after effects of the pandemic continue to make finances tight for local authorities

The Council entered the Covid-19 pandemic in an improving financial position with a plan to deliver savings and build strength in its reserves position, it was able to achieve this in 2019/20. However, the effects of the pandemic impact on the economy has negatively affected revenue streams, so ability to deliver the efficiencies required has been impeded at a time when there is increased demands for services.

Recent publications have indicated that a number of County Councils are reporting multi-million pound gaps in their 2023-24 budgets. The combined estimated £500m deficit is expected to increase as further councils revealed their budget position for 2023/24. Some estimate this could be as much as £3.5bn. Cabinet papers on 29th November 2022 predicted a provisional budget gap at Surrey for 2023/24 of £14.4m.

There are also fears that high inflation, which is pushing up costs in all areas, could make those deficits even wider before the budgets are agreed.

The Council budget was increased by £35.2m for 2021/22 from £968.4m to £1003.6m. This, however, is due to one off Covid funding of £51.2m and overall Surrey County Council has seen a steady reduction in its funding from the settlement over the last ten years, and the MTFS assumes a continuation of this reducing trend.

Following the Financial Improvement Programme (FIP) initiated in 2018, the Medium Term Financial Strategy (MTFS) was specifically reviewed and the challenge was to deliver an MTFS that did not focus on short term solutions. Assumptions around Council Tax and Business Rates have specifically been reconsidered and these both show as coming under increasing pressure with reductions in future income levels. (The small increase in expected Council Tax is set against the increase in the expected Collection Fund deficit). The uncertainty around future funding is expected to be managed through decisions around discretionary elements of funding, particularly the extent to which the Adult Social Care precept is employed (currently not included in MTFS projections) and through corporate contingencies. Now the FIP has been completed and FIP2 has begun, key assumptions have been reviewed and a prudent approach to setting out financial plans is in place.

The Council Tax base shows a modest increase to return to pre-Covid-19 levels for 2022/23. The MTFS assumes ongoing increased demand for Adult Social Care and in Special Educational Needs & Disability (SEND) provisions. It also assumes an ongoing increase in the local population.

Financial sustainability

For 2021/22, inflationary pressures, both pay and non-pay account for much of the increases in 'budget envelopes' (this is the term now used by the Council). These increases have been included in the budget and MTFS, despite an overall expected reduction in government funding. Inflationary pressures are costed in partnership between the Directorate Leadership Teams, Accountable Budget Owners and Finance.

The MTFS shows an expected level of consideration of and recognition of expected expenditure drivers in terms of demographic pressures and the potential impacts of Covid-19.

The budget report shows that the Council has a general fund reserve of £24.2m at 2021/22 (£16.13m 2020/21). A comparison of reserves to other Councils is included on the next page. This is lower than most other County Councils but a plan is in place to increase this over time. It is noted this balance has increased to £48m by 31st March 2022. Risk is explained in detail, and it is made clear that is that despite making progress, there are financial challenges facing the Council and a need to improve reserve levels to mitigate these pressures. These reports set out in detail the robustness and risk factors behind all and any estimates included within the Council's financial plans. These reports which accompany the budget and their appendices are thorough and detailed, but are sufficiently summarised to enable members to make an informed decision without reading each and every appendix. The Council uses what they call a six-point best practice code to build a budget including a focus on the strategic maintaining financial stability.

Review of Council papers indicate the assumptions used for the financial planning for 2020/21 and 2021/22 are sound. We have seen no evidence that short term measures are being used to relieve current pressures.

s.25 report is a paragraph in the budget report headed as the s151 officer commentary. This states the Council is required to maintain adequate reserves and the budget report states that "it is the view of the Executive Director of Resources (Section 151 Officer), that the level of reserves is adequate to meet the Council's needs for 2021/22. These reserves include the following amounts, (totalling £91.9m) set aside specifically to provide financial resilience". The report also states that the s151 officer considers the budget to be robust.

The future financing of local government is still unclear. A planned government long term spending review was postponed from 2020 due to the pandemic and the current local government settlement only covers the 2022/23 year. The date of the long-term review, whilst announced in the October 2021 budget statement, is yet to be confirmed.

The Council has a detailed financial plan covering a rolling five years. Given the uncertainty of the financial regime, its plan has been drawn up on prudent assumptions on future income streams. The Council has considered long term pressures on funding streams such as Council Tax, Business Rates and the Government funding settlement.

Lack of information on future funding is a national issue but we have seen pre pandemic that the Council has a sensible approach to financial planning and budget management.

How the body plans to bridge its funding gaps and identifies achievable savings

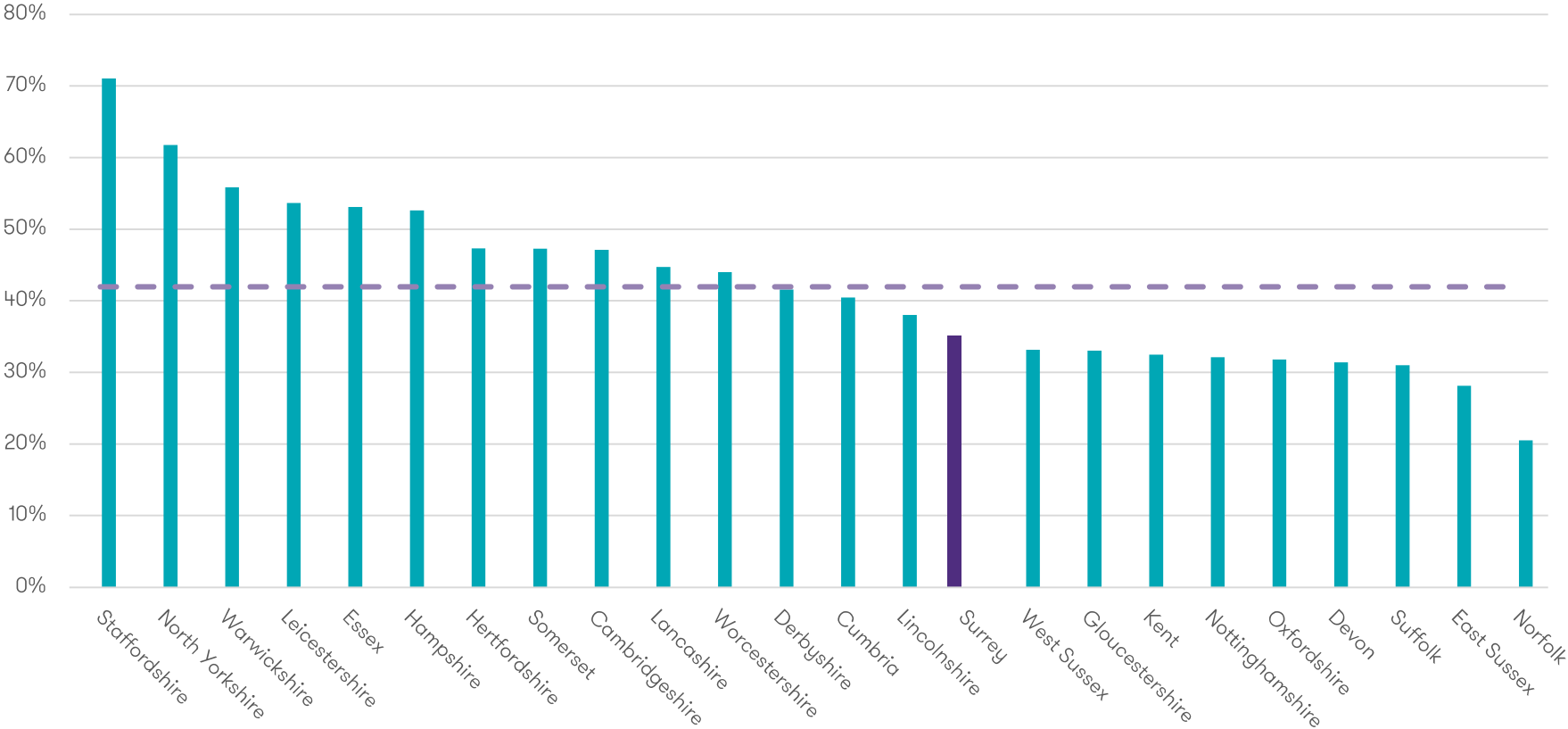
As previously mentioned, the Council has set up a medium-term financial strategy. The cumulative budget shortfall over the five-year MTFP at April 2022 was £150.5m over the period 2022 to 2027 after compensating measures. A delivery of savings already identified and identification of further savings was being envisaged to bridge this gap. Given the uncertainty of funding, detailed efficiency plans are only drawn up for one year at a time. Savings of c£40m per year are identified as being necessary to address the gap. The Council is aware of the ongoing funding pressures it faces and monitors its efficiencies monthly (Cabinet is provided with monthly updates on funding, pressures and forecast budget variances). There is robust (monthly) monitoring of this by Cabinet. The approach to closing this funding gap is regularly discussed outside of Cabinet meetings with Directorate Leadership Teams, Corporate Leadership Team, the leader and the Cabinet Member for Finance.

The twin track budget process is good (twin track meaning to balance the budget and close the funding gap – the process has a twin focus). Without better information on future funding, SCC are being prudent, have identified the funding gap and are active in finding ways to address this.

The budgets and accompanying reports set out this understanding. There is a medium-term finance gap but a balanced budget was set for 2021/22 and 2022/23 and the Council has identified some efficiencies it plans to achieve over the four years of the MTFS. More medium terms savings plans would be advisable but this is difficult given the uncertainty of future funding. The largest pressures on the budget are faced in delivering services in adults and children's social care, services to children with special educational needs and disability and the ongoing impact of Covid-19. The Council is confident that it has been prudent in relation to both the budget for this year and the medium-term financial strategy (MTFS).

Financial sustainability

General fund and non-schools earmarked general fund reserves as a percentage of net service revenue expenditure (%)



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Financial sustainability

The 2021/22 budget included a 1.99% increase in Council Tax, plus a 0.5% increase in the Adult Social Care precept. The Council Tax increase is a rolling one, and this is anticipated to provide the headroom required to deal with the expected pressures of increasing SEND and ASC costs. For 2021/22 and 2022/23, the Council has a base budget contingency of £20m or 2%. The 2022/23 budget shows an expected increase in reserves, with a contingency fund increasing from £53.8m to £86m when combined with the planned increase in the general fund reserve to mitigate against future risk and uncertainties. This is considered adequate in the event of identified savings schemes (of c£40m p.a.) not being achieved.

While savings potential has been affected by the effects of the pandemic, from our experience in previous years we believe suitable efficiencies will be delivered. Since 2017, through the Transformation Programme, the Council has achieved savings of £74m in line with its plan. In 2021/22 the Council achieved £32.1m of the £41.2m planned of efficiencies (78%). £7.6m of the unachieved efficiencies relate to Children's services where this was undeliverable due to the inflationary pressures in Transport making the planned reduction in route costs unachievable, increases in Looked After Children numbers prevented efficiencies being delivered, as did the continued level of agency social workers. Overall, the Council achieved a small (£1m) surplus in 2021/22 which was added to reserves.

The MTFS, in which savings schemes are set out, is approved by Cabinet, both in draft in December and the final version in January of each year. Where savings fall within a budget 'envelope', the relevant budget holder has to sign up to an agreement setting out the spending and savings of that envelope.

Current arrangements are considered adequate to address the budget gap. Where slippage is identified and alternate savings are identified. Savings schemes are set out in the quarterly budget monitoring reports which go to members, so these are subject to the same level of scrutiny. The Council review and challenge proposals before they are agreed to go forward in the budget. Surrey has a history of successful delivery on efficiencies and we will monitor this position going forward.

The 2021/22 budget assumes no use of reserves and there is no evidence of an unsustainable planned use of reserves over the course of the MTFS.

The Leader and Chief Executive held virtual resident roadshows to share details about the budget and listen to residents about their priorities. Surrey County also engaged with residents and local partners such as Districts and Borough Councils, Health, Police and the voluntary, community and faith sector (VCFS) organisations to discuss the draft budget. An online budget survey for residents was also conducted which asked for their views on whether the Council should maintain, increase, or decrease budgets across a range of service areas.

Some financial areas were also included in the Community Impact Assessment work, in which residents and stakeholders were consulted on the work and spending of the Council.

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

We found a robust financial planning process which ties in with corporate objectives. There is extensive internal consultation to ensure the budget meets the needs of the service. The process ensures that key services remain funded. We found no evidence of the need to curtail services to support short term funding deficiencies.

There was £14.8m of recurrent savings in 2021/22 with £75.3 expected by 2025/26. £21.1m of investment is available to facilitate this programme. This is considered reasonable by Surrey as in recent years they have underspent against investment bids and transformation funding. Also, the proposed programme includes a number of projects in the earlier design phases and the £10m per annum revenue provision in the MTFS is a static amount introduced last year to set a marker of what might be available and required in any year, which should cover this funding gap.

The Council has the necessary resources for financial management including a financial system able to provide timely financial information, the necessary financial skills, experience and capacity in the finance team and budget holders in the services, clearly defined responsibilities for budget management and Corporate Management and member challenge of performance, holding budget holders to account, and making decisive interventions where necessary. We feel the Council has a positive financial culture and an appropriate 'tone from the top' set by the Chief Executive. The ongoing management of the Council's financial position over recent years is evidence of this.

Financial sustainability

In challenging times, it's vitally important that a strong financial culture is maintained. Council has a number of key projects to deliver over the next few years and we would suggest that the Council ensures that finance staff are not overstretched and provide such additional support as the s151 officer require.

Managers in individual services are responsible for managing their budgets and providing forecasts. Business partners will support them with this as needed and provide challenge where appropriate.

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The Council has a Capital Programme and has adopted a Capital Strategy and Capital Planning process which are regularly reviewed to reflect changing circumstances. At April 2021 the capital programme of £184.9m cover areas like infrastructure, property and ICT.

The capital programme is overseen by Members, while projects are subject to an appraisal, monitoring and approval process. Each year the Council reviews its capital expenditure plans and priorities for the next four years in order to agree a capital programme and pipeline. This is undertaken alongside the revenue budgeting process in order that the impact of both is considered. As part of the annual capital budget setting process services are required to complete a capital bid request form with details of the capital expenditure that they require. These forms are required to be completed for all new schemes, for existing schemes which are uncommitted.

The capital strategy refers more to other investment strategies and not to corporate strategic priorities. There is a passing reference to how the strategy will "contribute to the achievement of the Organisational Strategy" but there is not an explicit tie back to that organisational strategy.

The budget has been designed to be integrated with the core strategic priorities of the Council (it's Community Vision). These are set out in the MTFS as growing a sustainable economy, tackling health inequality and enabling a greener future. These are set out within the transformation section of the MTFS along with how these relate to individual service strategies. Transformation includes investment and disinvestment within particular services. Delivery of priorities forms the basis of the budget report and capital programme.

The understanding of drivers of risk in the Council budget are strong and variances from budget are understood. However, there remain fluctuations in variances to budget which may indicate further work is required, either to arrive at more accurate assumptions / a better understanding of cost pressures in the budget, or to ensure budgetary adherence is improved by budget holders. Some variance is inevitable as some services are demand led and is difficult to predict.

However, in emerging from the pandemic, a return to the norms of budgetary monitoring and financial discipline are required to ensure financial success. It will be equally critical to ensure that budget holders, and the Council as a whole, on signing up to future budgets, are held to account for any future failure to deliver the budgets agreed to. The Council will also need to be cognisant, early on, of pressures to budgets, with effective early warning systems to identify risks and ensure corrective action is taken. It is equally critical there are effective monitoring and assessment arrangements in place to understand whether future budgetary overspends are the result of unavoidable / unforeseeable cost pressures, or deficiencies in budgetary and financial discipline within directorates. Previous experience has indicated to us that the Council is well equipped to deal with the challenges ahead as long a strong financial culture is maintained.

The ongoing management of the Council's financial position over recent years is evidence of this. In challenging times, it's vitally important that a strong financial culture is maintained. Council has a number of key projects to deliver over the next few years and we would suggest that the Council ensures that finance staff are not overstretched and provide such additional support as the s151 officer requires.

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How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system.

We found a robust financial planning process which ties in with corporate objectives. There is evidence of staff working collaboratively across the Council as opposed to silo working. Service provision is aligned to the funding envelope. Council takes a transformational approach to budgeting which means that budget preparation is made in line with the plans within the transformation programme so the budget is aligned to service improvement and development priorities. Silo working appears to have been tackled as part of the FIP. There is talk of how services operated in silos prior to the FIP, but generally senior officers are confident there has been an attitudinal change.

Services have collaborated and appear to understand the wider position of the Council as a whole, and not just their own departments. The budget has been balanced over recent years, which would point to departments not spending their own budgets just to utilise them. We understand that underspent budgets are redeployed, which would suggest services do not spend their budgets simply to protect future allocations but identify savings.

The budget is aligned to wider plans, namely the corporate objectives but also a set of core planning assumptions which set out likely changes to the environment. These considerations are the starting point of the budget development process.

The Council’s Workforce Strategy & Design Lead is included in the Strategic and Integrated Planning Group (SIPG) which draws together Strategy, Policy, Finance, HR, Transformation and Directorate representatives. However, the link between the workforce strategy, which is an aspirational document, rather than a one with strategic objectives and numerical targets, and the budget, is not immediately apparent. The workforce strategy sets out aims and aspirations but is not an actual plan with numerical targets against which outcomes can be measured/ assessed. This is not a priority area in 2021/22 as there is a workforce strategy which sets out the aims and aspirations of the Council. They do consider this in setting the annual budget and MTFS so this triangulation takes place.

Financial sustainability

However, the Council has an organisational development strategy but it is not clear how it has been adapted to reflect the demands of the “new normal”. As a sector, local government is facing a recruitment and retention challenge. The need for future workforce planning to ensure the Council has the appropriate staff, with the right skills, at the right time to deliver sustainable Council services is clear. Discussions with management have indicated that a common workforce planning methodology is being developed alongside the development of the new corporate plan and is currently being trailed in some departments. A formal workforce plan will be released to coincide with the release of the new corporate plan. We will monitor this process to ensure the workforce plan is delivered.

The ongoing revenue costs of major capital investments are properly reflected in the revenue budget, including running costs as well as financing costs. The Council’s own self-assessment against the hallmarks of a good budget sets out that the capital programme is developed alongside the revenue budget by the Capital Programme Panel. The target is to demonstrate delivery of corporate and service priorities and set out the impact and linkages with the revenue budget. The Capital Programme is developed through the ‘Capital Programme Panel’ (a cross cutting panel of senior officers chaired by the Director of Corporate Finance) who are aware of the need to encourage directorates to include revenue costs in their capital bids. Much work is done at this ‘pipeline stage as pipeline projects are included in the budget.

Whilst the commentary in the budget states that the full borrowing costs of proposed Capital Programme are reflected in the revenue budget, this is not clearly identified or separated in the budgetary information provided to Those Charged With Governance (TCWG). The revenue budget just has the costs by directorate and the capital budget has the costs by programme. The information provided is at too high a level to identify the revenue costs of capital projects.

How the body identifies and manages risks to financial resilience, e.g., unplanned changes in demand, including challenge of the assumptions underlying its plans.

2021/22 has continued the challenges for financial management of dealing with a pandemic from 2020/21 including the changing ongoing profile of demands on services. Within the corporate risk register, the Council has identified the risk of not delivering the budget. It is noted that the latest Strategic Risk Register indicated the current risk score is “amber”. Budget reports are monitored on a regular basis and finance reports are subject to scrutiny and challenge at Cabinet meetings. A list of key risks is included in MTFP papers sent to Members when setting the Council’s budget.

The 2021/22 budget showed an expected increase in base budget contingencies, up from £33.4m to £53.8m. The revenue budget that has been set is balanced without the use of contingencies, with identified savings of c£40m. There are also earmarked reserves of £366m. The Council has been prudent in its assumptions. It has anticipated funding reductions of £52 million and identified an MTFS funding gap of £178 million over the next 5 years. The Council is providing pound for pound for the DSG deficit, so there is an equal earmarked reserve on the balance sheet to counter this deficit, should it not be funded in the future by the Department. This is prudent. This is linked to the SEN transport issue identified during discussions with officers. This is a significant part of the DSG deficit, but as above, this is being appropriately identified and managed within the budget. The MTFS assumes a decrease in government funding which is a prudent acknowledgement of expected future funding pressures.

The budget is aligned to wider plans, namely the corporate objectives but also a set of core planning assumptions which set out likely changes to the environment. These considerations are the starting point of the budget development process.

Overall, the Council has a relative amount of capacity to manage variances over the short to medium term. For funding purposes, the Council sets out a neutral, optimistic and pessimistic scenario. Directorates will consider risk and volatility in costing a most likely pressure to include in the MTFS. The Council has contingencies of £78m for Business as usual, £9m for SEND, £4.9 m for Covid-19 at April 2021. Potential volatility is considered in the drafting of the budget.

While reserve levels have been low in recent times, there is a plan to build up the general fund reserve. This is now set out as the intention in the MTFS, and it is recognised here as being based on ‘external audit advice’ to build the general fund reserve (or at least useable reserves) to a 10% balance.

As the Council emerges from the pandemic, and the ‘new normal’ begins to be established – crucially, a normal which once again comes with financial constraints – the organisation should assess what Covid working patterns and arrangements should continue in the post pandemic world. Our work indicates the Council will face significant financial challenges in future years and we will monitor this response in those years.

We found no evidence or indication of significant risks to your financial sustainability as such no further risk-based work has been undertaken in this area

Improvement recommendations



Financial sustainability

Recommendation 1	Consideration should be given to outlining how the Capital Strategy helps deliver the Councils objectives.
Why/impact	Where the capital strategy is not linked to Corporate Plan inappropriate projects may be developed
Auditor judgement	Linking the Capital Strategy to the Corporate Plan will help to demonstrate how the capital programme is delivering on corporate priorities
Summary findings	The capital strategy refers more to other investment strategies and not to corporate strategic priorities. There is a passing reference to how the strategy will “contribute to the achievement of the Organisational Strategy” but there is not an explicit tie back to that organisational strategy.
Management Comments	The Capital Programme Panel continues to ensure that the framework for setting the Council’s capital programme continues to focus on outcomes for residents, deliverability and affordability and contributes to the Community Vision for Surrey 2030 and aligning with the organisation’s priorities. Analysis of how the capital programme contributes directly to each of the Council’s priority objectives will be set out clearly in future budget reports from 2023/24 budget setting.



The range of recommendations that external auditors can make is explained in Appendix C

Governance



We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

Governance is the system by which an organisation is controlled and operates and is the mechanism by which it and its staff are held to account. It works from Council meetings to the front line. Ethics, risk management, compliance, internal control and best practice are all element of governance. Effective governance requires both clear and unambiguous structures and processes and effective working of people within these frameworks. Effective governance also requires an open culture that promotes transparency, a willingness to learn and improve and no fear to speak the truth. Robust risk management, along with good governance and strong financial management form cornerstones of effective internal control.

Last year we reported a significant risk of weakness due to inadequacies in risk management arrangements.

The Annual Governance Statement for 2021/22 notes “During the year an updated risk strategy and framework was approved by the Audit and Governance Committee and updated in the Constitution of the Council. A new format risk register was developed and embedded in each Directorate to focus on the underlying causes of risks, the possible effects and the controls and mitigations. In addition, a Corporate Risk Register and Corporate Risk Heat Map have been established to clearly identify the top risks faced by the Council”.

An internal audit review of risk management governance arrangements provided reasonable assurance in September 2021. Four medium priority recommendations were raised concerning the role of the risk framework in the constitution, definition of a risk appetite and further embedding of the new risk approach and development of departmental risk registers.

Evidence provided and discussions with management have shown that developments have been made in all these areas since this time.

The risk management framework was reviewed in 2021. The document sets out, how to identify, assess, treat monitor and report risk. It also defines roles and responsibilities. We have been informed that officers have received one to one training on risk management.

The Risk Governance group was set up in 2021 to further strengthen and manage the Council’s corporate management of performance and risk. Cabinet Members receive quarterly risk updates and the Audit and Governance Committee receive six monthly updates.

Risk is now a monthly standing agenda item at CLT meetings and this includes a presentation of the risk heat map as well as frequent deep dives on specific risks. Departmental risk review meetings are also taking place now as a standard agenda item. The Risk Manager is also encouraging managers and directors to particularly consider the risks that are most likely to materialize over the next quarter as part of risk review process.

Governance

The Strategic Risk Register contains 25 risks which we feel is at the upper level of what would be appropriate to allow for all risks to be provided with appropriate focus. Risks are scored but it is unclear whether this is the treated or untreated risk score and there is no target risk score. The risk register contains five “red” risks. These risk need to be mitigated to reduce risks scores to an acceptable level.

The risk register format is clear showing risk title, cause, effect, risk owner, lead officer current and expected controls The format could be enhanced by including links to corporate priority, date of last review, direction of travel, and date of next review. All risks have one owner.

As The Council should also consider developing information provided to Members and Senior Management regarding risk and linking to the three lines of defence model advocated by the Institute of Internal Auditors.

The Council could strengthen its risk management framework further by developing a full training programme for all levels of staff, providing greater clarity of the relationship between all the risk registers used across the Council, including strategic, operational, project and partnership risk. These should align to ensure that there is a clear golden thread of risks that runs up and down the organisation.

There is an effective internal audit function in place. The Internal Audit is provided by Orbis, a shared service with the East Sussex and Brighton and Hove Councils From review of reports and Audit and Governance committee papers, there looks to be an adequate and effective internal audit that challenges management and provided appropriate recommendations for improvement. The Audit and Governance Committee receives regular updates on progress and key findings. Of 55 reports with an assurance opinion issued by Orbis one minimal assurance report on banking controls within the local government pension scheme and seven partial assurance reports were issued in 21/22. A peer review was undertaken against the Public Sector Internal Audit Standards (PSIAS) in 2018 and an annual self-assessment is undertaken. These indicate compliance with the standards. Internal audit have a rolling plan of approximately 1800 days with additional days being added in 2021/22 to accommodate a programme of schools audits.

The function completed 55 audits in the year including schools audits. The annual report to the Audit and Governance Committee sets out the work done, and key issues arising and actions taken to address and identified control weaknesses.

The Head of Internal Audit Opinion, reported in June 2022 concludes that “No assurance can ever be absolute; however, based on the internal audit work completed, the Chief Internal Auditor can provide Reasonable Assurance that Surrey County Council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2021 to 31 March 2022”.

Review of the Annual Internal Audit Opinion and Audit Committee papers indicates a wide breadth of work during the year covering financial and operational processes and including a flexible approach which allowed adjustments to the plan in year.

Counter fraud services are also provided by Orbis. The Annual Internal Audit Opinion makes reference to this service. The Internal Audit Counter Fraud Team continued to deliver both reactive and proactive fraud services across the organisation. Details of all counter fraud and investigatory activity for the year, both proactive and reactive, have also been summarised within a Counter Fraud Annual Report presented alongside this Internal Audit annual report. The Counter Fraud team also support the National Fraud Initiative (NFI) We were informed where relevant, the outcomes from fraud work have also been used to inform our annual internal audit opinion and future audit plans. No significant frauds were reported in 2021/22.

Counter fraud operations are underpinned by Member and Staff codes of conduct (dated 2021 and 2017 respectively), The Council has an Anti-Fraud and Corruption Strategy and Framework last updated in 2021. This includes the Anti Bribery Policy and the Anti Money Laundering Policy. The Whistleblowing Policy is a separate document.

The annual work plans for internal audit are currently approved and overseen by the Audit and Governance Committee From our attendance at this Committee, we consider it to robustly review the work of internal audit, providing appropriate challenge.

Governance

Internal Audit have highlighted concerns over pensions administration in recent years at the Council. Following this, a Turnaround Board was appointed and an 18-month turnaround programme was established. This is now complete and the team have entered the transformation phase of transition. The service has been withdrawn from the Orbis Partnership and now works as a standalone service and it has divested itself of the external pension scheme it was administering so it can focus on its core function. The team has been reorganized and new performance measures have been put in place.

There remains a backlog of pensions administration work and a target has been set to bring this down to controllable levels by March 2023. We do not believe this remains a significant weakness from a VFM perspective.

How the body approaches and carries out its annual budget setting process

The ongoing impact of Covid-19 has made this a second unique year for financial planning. The Council has a robust approach to financial planning and assumptions made appear reasonable. While future funding is unclear, a medium-term financial plan has been produced based on prudent assumptions about future income streams. Our previous knowledge of the Council informs us that arrangements are in place with the Council to model the uncertainties in the system notwithstanding the factors that are outside the Council's control. We understand that the model medium term financial strategy is a living document, constantly updated following discussions across the council. Given the approach, we have seen evidence of the scenario planning.

As the funding settlement has only been on an annual basis recently, one of the key risks is that the downward trend in funding is continued. This is a key aspect in the budget commentary. We are content during the budget setting process that the budget is subject to sufficient challenge. Budget preparation is assessed against a best practice framework.

For 2021/22 there was engagement with residents for the budget setting process, plus a community impact assessment was carried out in the wake of Covid which was used to identify priority budget areas.

Internal engagement is at an appropriate level. This includes:

- Directorate Leadership Teams
- The Strategic and Integrated Planning Group (SIPG)
- Extended Leadership Forum discussions
- Member discussions / briefings (both formal and informal)
- Scrutiny (both formal and informal)
- Trade Union Briefings.

The Corporate Leadership Team (CLT) approve the budget framework and approach, developed through Strategic and Integrated Planning Group (SIPG) and Capital Programme Panel (CPP). The budget is developed through Directorate Leadership Teams / Strategic Capital Groups and CPP, which approve budget proposals to be reported to CLT. CLT consider, modify and approve budget proposals to go to Cabinet. Cabinet are engaged informally at first and then formally go through the draft budget in November and approve the final budget in January. Select Committees are involved in September and October informally and December formally, with a fallback position for further scrutiny in January if the Local Government Finance Settlement materially changes the budget. Full Council Approve the budget in February.

Budget Accountability Statements are circulated to Accountable Budget officers setting out their revenue and capital budgets, and their responsibilities to deliver services within the budget envelope. Accountable budget holders sign up to their envelope.

Investments and borrowings are included within the financial plan, but the effects are minimal given the rates of return on investments prevalent in 2021/22.

How the body ensures effective processes and systems are in place to ensure budgetary control.

Managers in individual services are responsible for managing their budgets and providing forecasts. Business partners support them with this as needed and provide challenge where appropriate.

Governance

A partnership agreement between budget holders and finance sets out the respective roles and responsibilities of everyone involved in budget management. Finance works with budget holders to identify, report and manage variances in line with the partnership agreement. Monthly budget monitoring takes place through DLTs, CLT and Cabinet. This is covered within the monthly budget reports (called the Monthly Financial Report) considered by Cabinet.

As Surrey has met its budget in recent years, there has not been a need to make drastic in year adjustments, but the monthly reporting to Cabinet is a standing item and forecast significant end of year variances are highlighted as soon as these are known. This means there is scope to approve in year adjustments here if required.

Review of committee papers indicates close monitoring of budgets and full disclosure of variances and comprehensive explanations. No evidence of weakness in budgetary controls processes have been identified. The monthly budget monitoring reports detail variances by department (and service lines within departments) demonstrating a regular identification of in-year variances. Actions being taken or to be taken by departments, where relevant, in response to such variances are set out. All budget variances are accompanied by detailed explanations.

The S151 Officer is an Executive Director and Deputy Chief Executive and sits on the Corporate Leadership Team. The finance team has been strengthened post FIP and is now a dedicated Surrey finance team (no longer an Orbis team across the three authorities). There is now an established team and the Executive Director is supported by a number of suitably qualified and experienced team members. The CIPFA report on the authority in 2018 did challenge the capability of that finance team. The FIP has been successful in restoring the credibility of the finance function. Within the organisation

It is clear that financial delivery is a key objective from the top down. 2021/22 has been a tough year financially for Surrey and without a concerted effort across the Council the year end position could have been troubling for financial sustainability.

We consider budget management arrangements to be robust and we have found no areas of concern during our work.

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency.

From review of papers and discussions with staff, we believe the Council's decision-making processes are open, transparent and strong and we have no evidence that reactive or unlawful decisions have been made.

It is evident from our review of papers that sufficient information is provided to Members and they challenge and hold senior management to account appropriately. The Council is engaged and provides appropriate levels of scrutiny to external and internal audit.

The Council is well established with a Conservative majority. We have no concerns in relation to risks related to high turnover of Council Members which can lead to inadequate understanding of the organisation leading to poor decision making. The importance of maintaining a strong financial culture is vital in the context.

All Cabinet reports and decisions are subject to S151 officer sign-off and all Cabinet decisions are subject to scrutiny via Select Committees. The revenue budget is subject to ongoing scrutiny and detailed reports are provided to Cabinet and Council prior to approval. Capital investments are subject to scrutiny by cross-cutting Strategic Capital Groups (for Property, Infrastructure and IT), followed by Capital Programme Panel.

Financial and operational activity appears well planned with no need for reactive actions and short-term remedies. Even during the height of the effects of the pandemic response have been deliberate and thought out.

Governance

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

Various internal and external mechanisms are used to ensure the Council meets the necessary standards and legislative requirements.

Our work has not uncovered any non-compliance with the Constitution, statutory requirements or expected standards of behaviour. No data breaches were revealed to us that were significant enough to report to the Officer of the Information Commissioner.

Officer and Member codes of conduct are in place and Members interests are published on the Council website. There is an opportunity for Members to declare interests at every meeting as a set agenda item. Related party transactions are required to be declared as part of year end closure of accounts and sent to all Members and Senior officers for their completion. A register of officer interests is maintained by Human Resources and declarations are reported annually to the Audit and Governance Committee. Internal Audit, the Monitoring Officer and members of the HR Governance team review the register quarterly. The implementation of the Council's new Enterprise Resource Planning (ERP) System will facilitate the process for recording the offer of Gifts and Hospitality to be automated from early 2023. We found no evidence of adverse outcomes of interests, gifts or hospitality not being declared.

At the time of our last report, an Ofsted 'inadequate' rating remained in place for children's services. The Ofsted inspection in early 2022 found that services for children and families in Surrey have improved leading to a rating of "requires improvement" and the service is no longer in intervention.

The Director accept Surrey are still on an improvement journey and she is aiming for a rating of "Good" by the time of the next inspection.

The 2022 Ofsted report required six specific actions and work groups were set up to deal with these. These were address and information was provided to Ofsted by July 2022. There is also a general improvement plan. On top of this there has been transformation work being undertaken by the transformation team. These are invest to save programmes overseen by the Corporate Transformation Board. Consultants called Impower have been helping the Council identify savings and they have worked to help Children's services. The Director of Children, Families and Lifelong Learning is looking to coordinate all these below a single improvement board chaired by a Cabinet Member. This process is pencilled in to start from November 2022.

The Director also receives a comprehensive performance compendium on a monthly basis. This covers all services across Children, Families and Lifelong Learning. This is discussed at departmental leadership team and pertinent sections are on the agenda at the four divisional management meetings so managers come to departmental management team with the necessary background knowledge.

Departmental management also work on various benchmarking processes including CHAT, a tool which compares all councils and more local benchmarking groups with other councils in the south east of England. Eighteen indicators are also reported to the Department for Education (DfE).

Service quality is monitored by the Quality Review Team. They work through practice review and work with managers, assurance staff and the User Voice service to identify good and poor practice.

There have been clear improvements in children's services and there is a stated aim for further improvements in the service to bring the service up to a good Ofsted rating. We therefore no longer believe children's services present a significant risk of failure but members and senior management must continue to monitor progress to ensure planned improvements are brought to fruition.

We found no evidence or indication of significant risks to your governance arrangements as such no further risk-based work has been undertaken in this area

Governance

Climate Change

Surrey's Community Vision for 2030 contained the ambition that:

"Residents live in clean, safe and green communities, where people and organisations embrace their environmental responsibilities"

In support of this ambition – and the UK's commitment to achieving net zero carbon emissions by 2050 – on 9 July 2019 the council declared a 'climate emergency' and committed to work with partners to agree Surrey's collective response.

To achieve the Councils' goal of net zero carbon by 2050, a Climate Change Strategy was published in 2020. The strategy was developed through engaging with academic partners, residents, businesses, schools and emergency services through workshops, focus groups, resident panels, and commissioning groups. It contains:

- 19 targets
- 164 specific actions

Some of these actions can be undertaken immediately and were planned for completion by 2022, whilst others are due to take longer to plan, implement and achieve – working towards a 2035 timeline. They are a mixture of those implemented by Surrey County Council and other authority partners, whilst others are for residents and businesses to achieve. The strategic priorities within the strategy, and the accompanying emissions reduction targets, are to be revisited every five years to consider potential for acceleration, with an annual progress report against our targets and key actions.

The Strategy was supported by a Climate Change Delivery Plan 2021 to 2025, and New Tree Strategy which establish the approach for how Surrey's local authorities and other partners will work together to put the county on the path to net zero carbon emissions and strengthen our climate resilience. Our success lies in us all taking action to shift our behaviour and to live more sustainable lives to help safeguard our communities and the environment.

By March 2022 the following had been achieved

- £48 million has been committed to ensure that within 10 years all buses in Surrey are ultra-low or zero emission vehicles
- Over £6m has been invested in new in cycling and walking routes to help people rely less on their cars
- With district partners across Surrey, 14m of Government funding has been obtained to assist low income households to improve the energy efficiency of their home
- A new Surrey Transport Plan has been produced aiming to support people out of private fossil-fuel powered cars, to help reduce the 46% of carbon emissions generated by transport
- About 50% of 89,000 streetlights have been converted into LEDs, which is predicted to use 65% less energy and save £2 million per annum
- The Farnham Infrastructure Programme has commenced aimed at tackling congestion and air quality in Farnham and surrounding areas.
- A new greener highways equipment has been procured.
- A commitment has been made to planting 1.2 million trees by 2030.
- Commenced works to reduce the flood risk for 11,000 homes and 1,600 businesses in communities along the River Thames following a £270m investment and Government approval of the latest stage of the scheme.
- Reached the 3rd best recycling rate in England - one of the most important ways we can help to reduce global warming and climate change.

Improvement recommendations



Governance

Recommendation 2

- Consideration should be given to the following improvements to the risk management process as processes become embedded.
- Inclusion of untreated, treated and target risk scores in risk registers
 - Develop a training module for new starter to raise awareness of risk across the organisation.
 - Show how assurance is linked to the three lines of defence model.

Why/impact

Further development of risk management techniques will help embed management of risk in the organisation leading to better decision making

Auditor judgement

Significant steps have been made to improve and embed risk management process with Surrey County Council since our 2020/21 report. Further enhancement could now be made to help ensure best practice is followed.

Summary findings

Risks are scored but treated or untreated risk scores are not reported and there is no target risk score. In the corporate risk register.
There is no clear link between risk and the three lines of defence model advocated by the Institute of Internal Auditors.
One to one training is provided to risk owners by the Council’s Risk Manager but no training is provided to the wider staff cohort.



The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Governance

Recommendation 2 cont Consideration should be given to the following improvements to the risk management process as processes become embedded.

- Inclusion of untreated, treated and target risk scores in risk registers
- Develop a training module for new starter to raise awareness of risk across the organisation.
- Show how assurance is linked to the three lines of defence model.

Management Comments

The scoring system used by the Council reflects the current risk exposure in terms of probability and impact. It is considered that there is currently limited value in our opinion from getting risk owners to further assess the untreated score, rather the Council's risk management approach is to spend the time with risk owners to focus on understanding the causes and effects of their risks, to assess the current risk exposure and to ensure that suitable mitigations are put in place. The introduction of additional scoring values will potentially cause more confusion as oppose to aided the discussions.

The majority of the risk management effort is focused currently on those risks which can have the largest impact to the organisation with training targeted to those risk owners. A broader training offer will be developed from 2024.

The risk approach adopted by the Council does follow a 3 lines of defence model. The first being risk owners and executive officers working to address the risks, the second being Cabinet Members and Audit & Governance Committee providing review and scrutiny supported by the Head of Strategic Risk, and the third being internal and external audit.



The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Governance

Recommendation 3	Members and senior management should continue to closely monitor improvement actions being undertaken within the Children’s, Families and Lifelong Learning Department to ensure continued progress is made.
Why/impact	Failure to monitor improvement actions made lead to slower improvement than required or in a worse case scenario deterioration of services.
Auditor judgement	Improvements have been made within care services provided to children in Surrey but the improvement journey must continue if services are to reach the high level residents would expect.
Summary findings	At the time of our last report, an Ofsted ‘inadequate’ rating remained in place for children’s services. The Ofsted inspection in early 2022 found that services for children and families in Surrey have improved leading to a rating of “requires improvement” and the service is no longer in intervention. The Director accepts Surrey are still on an improvement journey and she is aiming for a rating of “Good” by the time of the next inspection.
Management Comments	The Council notes the recommendation and confirms that the performance of children’s social care continues to be monitored regularly including through the work of the Transformation and Assurance Board.



The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Governance

Recommendation 4	Management should continue improvement works being undertaken with the pensions team and ensure that the backlog is brought to a manageable level within agreed target dates
Why/impact	Failure to address inadequacies in pension administration will increase the risk that service users will not receive an appropriate and timely service
Auditor judgement	Some improvements have been made in pensions administration with the team reorganised and new performance metric introduced but the service remains on an improvement journey.
Summary findings	Internal Audit have highlighted concerns over pensions administration at the Council. Following this, a Turnaround Board was appointed and an 18-month turnaround programme was established. This is now complete and the team have entered the transformation phase of transition. The service has been withdrawn from the Orbis Partnership and now works as a standalone service and it has divested itself of the external pension scheme it was administering so it can focus on its core function. The team has been reorganized and new performance measures have been put in place. There remains a backlog of pensions administration work and a target has been set to bring this down to controllable levels by March 2023.
Management Comments	Working with internal audit and in response to the internal performance audit, the pension team have given the Surrey Local Pension Board and Pension Fund Committee full visibility of the progress of improvements. As part of the transformation of the administration function, plans have been developed to address the backlog of cases, including investigating and analysing productivity. Clearance of case backlog will be reduced incrementally over a period of 2-3 years based on existing analysis, before they are eliminated in full.



The range of recommendations that external auditors can make is explained in Appendix C.

Improving economy, efficiency and effectiveness

Page 279



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

How financial and performance information has been used to assess performance to identify areas for improvement

This year has been another challenging one for public services as a whole and the Surrey County Council was no different. Local Government will face yet more challenge as it moves from the Covid response stage to the task of supporting long-term economic and social recovery along with the cost-of-living crisis and significant levels of inflation.

Surrey use software called Tableau to monitor performance. This is a dashboard where the user can drill down to individual performance measures. Departmental performance is RAG rated. All Directors and Cabinet members have access to the system and can get real time access to performance information. The system is also used to produce a monthly report to CLT and Cabinet on performance that outlines KPIs and explains variances.

Departmental performance teams are in place and they feed information into Tableau and the corporate performance team.

Benchmarking is carried out in departments and Surrey is the member of several benchmarking clubs e.g. adult services CIPFA stats and LG futures are used to benchmark performance.

Consultants are currently in reviewing how the Council manages performance and their report is due shortly. The Council hopes this exercise will help align performance measures more allied to strategic priorities and not just operational measures which they are more at the moment.

Departments are responsible for their own data quality and performance data will be signed off as accurate by the director. A data strategy is in place which outlines how Surrey plans to use data to improve service but there is nothing in place which outlines how data will be verified as accurate, complete and timely. Without a data quality policy, guidance or a formal process related to data quality, there is an increased risk that poor quality data can be reported to decision makers leading to poor decisions.

How the body evaluates the services it provides to assess performance and identify areas for improvement

The organizational strategy or community vision is used by officers to deliver services and to inform their recommendations to service committees. Councillors use it to inform their decisions too. The current Corporate Strategy runs until 2026.

We found no evidence of failure to meet minimum service standards despite recent issues with children’s services or consider appropriate service delivery options. The organisation has a focus on long term development and not short-term expediency.

The current transformation programme is evidence that the Council challenges the way it provides services and ensure that services remain cost effective. The use of national benchmarking, on-going performance monitoring and the transformation programme are evidence that the Council is always alive to more cost-effective ways to deliver services.

Improving economy, efficiency and effectiveness

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve.

Partnership working is a key theme running through the Organisation Strategy and working with partners is mentioned throughout. In reading the plan, the aims and aspirations are clear. However, there are not really examples of how this is being achieved and what is being done by partners within this document.

There are three strategic partnership boards which are formally constituted. These are the Surrey Growth Board, the Strategic Health and Wellbeing Board and a new Greener Futures Board. These align to the priority objectives. A fourth Board, to align to the Empowering Communities target, is in the process of being constituted.

Page 280 These boards contain a mixture of members and representatives from across Surrey, including business leaders, university representatives and health partners. The Leader of the Council chairs each of these boards, and as such, the Council has an insight into the work being delivered by the Council in partnership with other bodies. Whilst there is not a formalised reporting schedule from these Boards, there is ongoing reporting to select committees on request.

Surrey Heartlands is a further partnership with local NHS Bodies. One of the first Integrated Care Systems in the country, the partnership works across our four 'Places' – East Surrey, Guildford and Waverley, North West Surrey and Surrey Downs. Partners include local NHS Trusts and District Councils, as of July 2022 Surrey Heartlands is constituted as one of the new Integrated Care Boards with formal NHS governance structure. The Chair of the County Council is also chair of the Integrated Care Partnership and the Directors of Public Health, Adult Social Care and Children, Families and Lifelong Learning also sit on the board.

In addition, the Council works with some 600 VCFS bodies. As well as commissioning these bodies to work with residents and other bodies, the Council also provides funding to support the VCFS infrastructure locally. We have identified an opportunity to further support officers working with the VCFS on this.

The Council has also has two key commercial partnerships

- Orbis – A shared service organisation with East Sussex and Brighton and Hove Council. The 151 officer sit on the board with his counterparts from East Sussex and Brighton.
- Connect to Surrey – A partnership with Kent Commercial Services to procure temporary staff and recruit permanent staff.

The Council is transparent about its dealing with significant partners except where commercial sensitivity precludes this.

Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

Procurement support services across the organisation delivering front line and back-office services. We have not been provided with the Council's current Procurement Strategy as we understand it is currently under review and will be approved and published prior to Christmas 2022. We believe the strategy should cover partnering, e-procurement, procurement with small to medium size enterprises and the voluntary sector, value for money, social value, sustainability, local procurement and contract management. It should refer to the National Procurement Strategy for Local Government in England which was introduced in 2018. The National Procurement Strategy also provides a toolkit for the Council to assess its progress against the themes and objectives within the strategy.

The Council has a legal duty to secure value for money in commissioning and procuring its requirements and to continually improve the quality in everything the public sees and expects from it. Central Government policy seeks to ensure that all commissioning and procurement activity should be based on obtaining value for money. This is defined as considering the optimum combination of whole life cost and the quality necessary to meet the customer's requirements. In conjunction with relevant legislation and the Council's Constitution (particularly the Financial Regulations and Procurement and Contract Standing Orders).

There is an ethical procurement statement and a supplier code of conduct. The ethical procurement statement mainly sets out the Nolan principles. The supplier code of conduct contains the expected elements of an ethical procurement strategy, covering slavery, exploitation, safe working conditions, compliance with taxation and other legislation, and operating sustainably and considering environmental impact.

We found no evidence that appropriate procurement processes were not followed during 2021/22.

We found no evidence or indication of significant risks to your economy, effectiveness and efficiency arrangements as such no further risk-based work has been undertaken in this area

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1	The pensions administration transformation programme should continue to be implemented by the Council, to ensure this team moves to a 'business as usual' operation and the backlog of pensions administration work is cleared.	Key	February 2022	Deadline for action not yet reached but there has been considerable organisation and new developments in the way the pension team undertakes its operations. This is no longer considered a significant risk of weakness.	Partially	Work to continue to clear backlog by target date . An Improvement Recommendation has been raised
2	There should continue to focus on the implementation of the children's services improvement plan. Work must continue to highlight the traits of a good service with an ongoing gap analysis of the performance of Surrey against these traits.	Key	February 2022	An Ofsted inspection in early 2022 rated services as "requires improvement" and Surrey was removed from intervention. This is no longer considered a significant risk of weakness but a further improvement recommendation has been raised.	Partially	Further improvement actions are ongoing with the aim of achieving a "Good" rating at the next inspection. An Improvement Recommendation has been raised.
3	Consideration could be given to setting out the revenue costs of each capital programme as a separate line in the reporting of each capital programme to Those Charged with Governance.	Improvement	February 2022	Consideration will be given to how this can best be set out on a scheme-by-scheme basis for the 2023/24 budget process, noting that the 2022/23 budget has already been completed and approved.	No	Processes to be reviewed for 2023/24

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
4	Whilst there is good, regular reporting of the financial position and performance of the Council's subsidiary companies, detailed financial information is only presented to the Shareholder Investment Panel (SHIP). A detailed breakdown of the expected financial contributions from these companies is not separately identified in the monthly budgetary information provided to Cabinet.	Improvement	February 2022	A six monthly update from each wholly owned subsidiary is provided to SIB and in addition, a mid-year update is added to the annual updated provided to Cabinet by SIB.	Yes	No
5	The Council should continue to see through its plans to establish a robust system of risk identification, assessment and monitoring, ensuring that this covers all services and directorates and is reviewed and updated at least annually. This will include the tailoring of the risk management strategy to the organisation.	Improvement	February 2022	Work has continued to improve and embed risk management. A risk framework is now in place, a corporate risk register has been prepared and is reported regularly to management and members.	Yes	No
6	Whilst interests declared by members are available on their individual biographies on the website, the Council should consider the creation of a central, online register of members' interests. This would enable a review of the interests of the Cabinet or of a specific Committee as a whole.	Improvement	February 2022	Sufficient alternative controls were demonstrated by management	Yes	No

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
7	There should be regular, formalised reporting to Cabinet of performance information. This should use a set of agreed key performance indicators and ideally reporting should be RAG rated. These indicators should align with the Council's priority objectives.	Improvement	February 2022	During 2021/22 performance was reported to CLT and Cabinet monthly through a tableau reporting system focused around key priority themes identified within Directorates. A PowerPoint report was also provided to Cabinet each month focusing on the areas which had been identified as priorities	Yes	No
8	The draft performance outcomes framework should be finalised and used as the basis for a framework against which to report key performance indicators. To help embed this outcomes framework across the organisation, consideration should be given to including references to this in officers' performance reviews.	Improvement	February 2022	At the time of review, the Council were undertaking an Integrated Business Planning and Performance Review with TPX consultants which was due to conclude at the end of October in order to develop better integrated Council wide planning and performance framework. Outcomes of the review are focusing on the better alignment between performance reporting and our strategic objectives, increased joint working and collaboration, and better use of insight to tell the performance story. Phased implementation is expected to begin in November.	Yes	No
9	Consideration should be given to how benchmarking costs and performance against similar authorities could improve decision making. Benchmarking data is used as a tool at an operational level but there is scope to improve the data used in the formative benchmarking report to members.	Improvement	February 2022	The Council is developing a set of corporate benchmarking measures with a group of local authorities with the aim of sharing the measures for comparison and support. The group was established in May 2022, and a set of measures has been agreed in principle. It was expected the group would meet again in November to further refine the detail behind the measures further and the approach for data sharing. Services within Surrey have their own internal arrangements for benchmarking and comparison with other local authorities	Yes	No
10	All those charged with the management and monitoring of contracts with the voluntary, community and faith sector (VCFS) should be offered annual training regarding best practice in managing these relationships. This should include establishing and monitoring KPIs for service providers in this	Improvement	February 2022	Improved contract management processes and training have been put in place some of which are generic and some of which are targeted at improving capacity in the VCFS sector	Yes	No

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
11	The Council should publish an update to the Community Impact Assessment which sets out the work the Council have done in response to residents' concerns (these were mainly focused on supporting local businesses and vulnerable residents).	Improvement	February 2022	The Council is committed to continuing support for businesses and individuals affected by the pandemic but, given the significant changes to the current situation since December 2020, revisiting the CIA line-by-line does not represent the best value for money at present. A strategic response was included the SURREY COUNTY COUNCIL STRATEGY AND DELIVERY – 2021 AND BEYOND Report to Cabinet in June 2021:	Yes	No
12	The Supplier Code of Conduct could incorporate specific targets/requirements in terms of compliance with the Council's social values and ethical procurement standards. The Council could then consider the development of mechanisms to measure whether and how suppliers are meeting these goals.	Improvement	February 2022	A new procurement strategy is being developed. We were informed that the strategy will be a high articulation of the future direction of the Service and it would not be appropriate to contain these types of metrics,	N/A	N/A
13	All budget holders should sign up to the agreement of their budget "envelope" for the year ahead.	Improvement	February 2022	The importance of budget accountability and the Budget Accountability Statements (BAS) has been acknowledged by the Council. A decision not to pursue the BAS for 2020/21 (considering the impact of Covid-19 causing budgets to be volatile) was taken. The BAS for 2021/22 were issued in advance of the financial year and when we were last updated a 93% response rate had been achieved including Executive Director response covering 100% of the budget. The Council is committed to pursuing a 100% response rate on BAS and this is included as a Key Performance Indicator for the Resources Directorate.	Yes	No

Opinion on the financial statements



Audit opinion on the financial statements

Our audit of the Council's financial statements including the Pension Fund is in progress. We anticipate completing our field work by end of January 2023.

Other opinion

At the conclusion of the audit, we will issue a separate opinion on the Pension Fund.

After the conclusion of the audit, we will review and issue an opinion on the Pension Fund Annual report.

Audit Findings Report

More detailed findings can be found in our AFR, which will be presented to the Council's Audit and Governance Committee at a later date

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

Preparation of the accounts

The Council provided draft accounts on 5 July 2022 in line with the national deadline. A proportion of the supporting working papers were provided in the following days and weeks.

Issues arising from the accounts:

The Department for Levelling Up, Housing and Communities will issue an update to the Local Authority Capital Finance and Accounting Regulations to remove the requirement to consider component derecognition for infrastructure assets i.e. the statutory override. This will then allow us to complete our work in this area. This is not expected until late December 2022.

The overall quality of supporting working papers needs to continue to improve. We note in many instances that follow up queries were often needed to supporting working papers causing delays and additional costs to the audit.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation



Appendices

Appendix A – Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B – Risks of significant weaknesses, our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. We identified no such risks

Appendix C – An explanatory note on recommendations

A range of different recommendations can be raised by the Council’s auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as ‘key recommendations’.	No	N/A
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council’s arrangements.	Yes	Pages 13 and 20 to 22

Appendix D – Sources of evidence



Staff involved

- Joanna Killian Chief Executive
- Leigh Whitehouse Deputy Chief Executive and Executive Director of Resources
- Katie Stewart – Executive Director of Environment, Transport and Infrastructure
- Rachael Wardell Executive Director of Children Families and Lifelong Learning
- Rachel Wigley Director of Finance – Insight and Performance
- Paul Evans – Monitoring Officer
- Karen Grave – Interim Director of People & Change
- Neil Mason – Assistant Director – Pensions
- Paul Titcomb – Head of Accounting & Governance – Surrey Pensions
- Collette Holland – Head of Service Delivery – Surrey Pensions
- Sarah Richardson – Head of Strategy
- Nikki O’Conner – Head of Corporate Finance
- Russell Banks – Head of Audit – Orbis
- David John – Audit Manager – Orbis
- Peter Dell’oso Performance Manager
- David Mody – Risk Manager



Documents Reviewed

- Organisational Strategy
- Medium Term Financial Plan
- Cabinet papers
- Audit and Governance Committee Papers
- Capital Programme
- Workforce Strategy
- Corporate Risk Register
- Treasury Management Strategy
- Risk Management Policy
- Annual Internal Audit opinion
- Internal Audit Plan
- Member Code of Conduct
- Officer Code of Conduct
- Anti- Fraud Strategy and framework
- Relevant Internal Audit reports
- Data Strategy

Appendix E - Key acronyms and abbreviations

The following acronyms and abbreviations have been used within this report

AGS – Annual Governance Statement

CLT – Corporate Leadership Team

CPP – Capital Programme Panel

DLT – Departmental Leadership Team

ERP – Enterprise Resource Planning

ICT – Information & Communications Technology

MTFS – Medium term Financial Strategy

NFI – National Fraud Initiative

SEND - Special Educational Needs & Disability

SPIG – Strategy & Integrated Planning Group

