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To: All Members of the **EXECUTIVE**

The following papers have been added to the agenda for the above meeting.

They were not available for publication with the rest of the agenda.

Yours sincerely

Damian Roberts

Chief Executive

SUPPLEMENTARY PAPERS

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Surrey Heath Borough Council
Executive
17 October 2023

Finance Service Stabilisation Review

Portfolio Holder:	Cllr Leanne MacIntyre
Strategic Director/Head of Service	Strategic Director Finance and Customer Service
Report Author:	Bob Watson
Key Decision:	Yes
Date Portfolio Holder signed off the report	11 October 2023
Wards Affected:	All wards

Summary and purpose

To inform the Executive and all Councillors of the need to strengthen the Council's financial processes and address the resourcing issues within the Finance Accountancy and Transactions team.

Recommendation

The Executive is advised to RESOLVE that:

- (i) the actions proposed by the Council's Strategic Director Finance and Customer Services (the Chief Finance Officer appointed under Section 151 of the Local Government Act 1972), set out in the main text below and summarised at Annex A be supported;
- (ii) a budget growth bid on the current establishment of a minimum of £250k be considered as part of the budget process reported to full Council in February 2024; and
- (iii) the cost of supporting the Council's stabilisation of its finance functions in the current year be noted.

1. Background and Supporting Information

- 1.1 It is the view of the council's chief financial officer that the accountancy and transactions element of the finance service requires a full review in order to

stabilise its performance going forward and to protect the council and keep it on a firm financial footing.

- 1.2 This has been further exacerbated by the recent resignation of the Chief Accountant. Following this resignation a vacancy has occurred. In line with best practice, it is an opportunity to consider the structure and a revision of the Accountancy and Transactions team to address some underlying finance issues within the Council and the resource weaknesses within the team.
- 1.3 A recent HR 'health check' of the Accountancy and Transactions team revealed that many of the team are facing unsustainable workload pressures and stress around their day-to-day work loads and management.
- 1.4 Whereas this review has looked at the levels of resources within the Accountancy and Transactions Team, the primary focus has been to review the financial processes within the team and also the Council more widely. It is also the intention of this review to remove the continued dependence on agency staff and through this, bring greater stability to the team and reduce the on-going cost associated with operating the Council's finance function. It is also the CFO's opinion that without these changes, the council is exposed to financial risk in the following areas:
- 1.5 **Financial accounting.** The council has not yet delivered any financial statements of account since 2018/19. The 2019/20 accounts are currently pending final audit review by BDO (our external auditors) and it is hoped that an unqualified opinion will be delivered in time for the Audit and Standards Committee on 3rd October 2023. However the Council's technical accounting knowledge and expertise has been severely depleted since the last audited publication of accounts; this has been covered by use of interim and temporary consultancy support but with the national backlog of accounts and audits which is impacting on the availability of good permanent staff in the accounting and audit professions.
- 1.6 To help remedy this situation, budget was set aside in the February 2023 budget medium term financial strategy to recruit two technical accountants to assist with the completion of the outstanding statement of accounts and the subsequent audits, this was on a fixed term basis.

Proposal 1:

This review is proposing that the two fixed term posts be established as permanent posts within the structure.

- 1.7 **Management accounting.** The Council has a statutory requirement to set a balanced annual budget each year. Use of general fund and earmarked reserves are permitted on occasions to set the balanced budget. The annual budget is set at Council in February each year along with a three year forward

look of indicative budgets. This is published under the cover of the medium Term Financial Strategy (MTFS).

- 1.8 It is also deemed a governance requirement to manage and monitor its agreed annual budget throughout the year and report to the Performance and Finance Scrutiny Committee and the Executive on a regular basis – this will include forecasting the end of year outturn position, and ultimately reporting that position at the end of the year. Council officers, through the accountancy team, already do this, but it is considered that the introduction of best practice would improve forecasting and reporting.
- 1.9 The accountancy team is moving to a finance business partnering model in which the accountants will support their service managers and their areas in delivering the required management accounts for the council – this is a model that is used in many councils, giving budget responsibility and control firmly to the service budget holders.
- 1.10 The service reports to Performance and Finance Scrutiny Committee and the Executive on a quarterly basis from quarter two onwards until the year end out turn position. The council is on this journey of empowering budget holders and managers to own and operate their own budgets with the support of the finance business partners. There is however a recognition that this cannot be achieved without appropriate training and there is a need for both service managers and in some instances the service accountants to be trained further in order to deliver a fully functioning finance business partner model.
- 1.11 A review of the current budget structure has indicated that in some cases, budgetary control is held at too high a level and consideration of devolving budgets to a more appropriate level should be considered.
- 1.12 It is further recognised that some service areas require more support than others and this is known as ‘smart budget management’; in these instances the finance business partner(s) will dedicate more time to those services that are deemed to be higher risk due to the complexity of the their budgets or have a higher business need for accountancy support. However the current level of service accountants or finance business partners does not facilitate the support of some service areas to the degree that is and will be required.
- 1.13 A recent benchmarking study by the Council’s in-house HR team has indicated that potentially the grade of the Council’s current corporate accountant compares unfavourably with other Council’s in Surrey and the wider South East of England. This has led to difficulties in recruiting accountants of the right calibre, knowledge and skill sets. The main impact of this is that there is now an over-reliance on interim accountancy staff to deliver the various aspects of the role required by statute and good practice.

Proposal 2

The Council moves to a finance business partner model where budgets are ‘owned’ by service managers at the right level and support is provided by the

finance business partner. It is recognised that this could be a culture change for some and therefore a training programme will be developed and delivered.

Proposal 3

This review is therefore proposing that an additional service accountant or finance business partner be recruited to support this model across the Council.

- 1.14 **Exchequer Services and Debtor control.** The transactions team are generally well resourced and can deliver the accounts payable / accounts receivable and reconciliations part of the service. There is a requirement for the council to perform better around the management of its debtors as part of the accounts receivable element of the service. Whilst this is a recognised area of weakness and there is a need to improve, it is not considered that anymore resource needs to be recruited in the transactions team at this point in time. The transactions team regularly update our purchasing, accounts receivable and debtor management guidance, and there is a need for services to formally recognise and adopt these processes.

Proposal 4

The Council's debtor procedures are subjected to a review and services guided in the implementation of the these procedures.

- 1.15 **Systems accountant/systems manager** The Council runs a Civica based ledger system. There is currently a single systems administrator which represents a risk to the Council. Whilst there is not a need for another dedicated post, it is considered that the post includes a need to have accountancy knowledge and should be more senior, enabling the role to delegate to, oversee and train other members of the team in system administration.

Proposal 5

This review is proposing that the current systems accountant role be reviewed and re-evaluated with the intention of creating a more senior and accountancy focused system specialist role.

- 1.16 **Capital and Treasury.** The Council has a capital programme that is currently smaller than its previous ambitious programme. There are potential regeneration projects in the longer term pipeline and it is the opinion of the

Council's CFO that in some areas, awareness of capital budgets and processes is an area for improvement. There has been a large amount of budget reprofiling over the past couple of years and the introduction of capital programme board meetings, whilst not reducing the magnitude of this, has enabled better identification and reporting throughout the budget year.

- 1.17 Additional to this, the permanent recruitment of the capital accountant vacancy has proved particularly troublesome. Following a long-term period of using interims, the recruitment of a permanent accountant has not proved successful – the last two appointees have struggled to come to terms with the job and have not completed their probationary periods. This may be to do with the fact this has historically been assessed as a lower graded than the other accountants.
- 1.18 It is the opinion of the Strategic Director that the Capital and Treasury functions of the Accountancy team would be better controlled under the Technical Finance Manager. This is a model adopted by many other Councils of a similar size to Surrey Heath and should provide resilience and cover for period of leave and absence.

Proposal 6

It is proposed that the current capital accountant job profile is reviewed and re-evaluated to include responsibility for the day to day treasury function and to bring it in line with the other accountants/finance business partners. Functional responsibility for Treasury and Capital will come under the Technical Manager.

- 1.19 **Procurement.** Since the departure of the part-time Procurement Manager in the Property and Economic Development team, the Council has a single procurement officer reporting directly to the Strategic Director for Finance and Customer Services. This represents (in the view of the CFO) a risk to the Council. The Council has two major partners in delivering services, plus a leisure partner. The procurement around these services are major and complicated and as such will require a level of expertise that currently is gapped in the Council.
- 1.20 Whilst the major contracts are well managed and closely scrutinised, it is the opinion that general contract management within the Council as a whole could be better controlled and improved through more central support from the procurement team.
- 1.21 It is proposed to strengthen the Procurement Team to allow better governance of tendering and contracting processes and also better guidance for services on contract management, which is an area of risk also identified in the recent Peer Review.

- 1.22 **Insurance.** Brokerage is provided by the London Borough of Sutton. This arrangement works well, but there is no dedicated insurance officer within the Council. Capacity is needed to deal with any claims that arise, as the current arrangements leaves the Council too exposed. The Council needs a dedicated insurance resource, but this need not be full-time, and could be combined with another role.

Proposal 7

The current post in the I&D team which is a grade 8 (0.4fte) should transfer to the Finance Service to work with/manage the existing Procurement Officer.

Proposal 8

The Procurement Manager's role is expanded to cover contract management and the Council's insurances (in conjunction with the London Borough of Sutton). This role will need to be established as 1.0 fte.

Proposal 9

There needs to be consideration given to an additional Procurement Officer role in the team. As the remit of Procurement expands to cover more contract management support and the move of the Council to a more business-like approach, there may be a need for the team to expand. This role is not costed in the establishment and will be subject to a separate business case should the need arise.

- 1.23 **Project management and support.** The Council is developing its project management processes and will potentially be embarking on some major capital projects; it is considered that, if there is a need identified, then there could be a requirement to support these through a dedicated Project Accountant.

Proposal 10

In accordance with the recommendations from the recent Corporate Peer Challenge by the LGA, and also in line with actions already underway, the Council continues to develop its project management approach, which includes full, proportionate and complete business cases, option appraisal, risk identification and management and benefit realisation plans. It is

proposed that this need is recognised and developed to ensure the Council continues to follow best practice.

- 1.24 Although not a proposal at this point, the Executive is advised to note this as an outline marker to fill a project accountant role should it become necessary; provisionally this would be at Grade SH6 and would be funded from the projects the accountant would support (potentially capitalised).

Further resourcing issues

- 1.25 The Council's focus on moving more quickly back to a 'balancing the budget', providing more financial transparency and prioritising closing the accounts, when combined with the DLUHC's new deadlines for completing accounts and audits creates a severe short-term resourcing issue for the Council's finance team. The recent resignation and departure of the Chief Accountant further creates both a resourcing issue and an opportunity to review the structure.
- 1.26 The ongoing inability to attract and recruit suitable permanent accountancy staff, mainly due to market factors around the Accountancy profession has increased a reliance on interims. A recent pay benchmarking report did demonstrate that SHBC were offering salaries that are currently below market scales for the South East of England. When this is combined with a lack of possible career progression within the current finance service it has highlighted a key issue around staff morale and retention.

Proposal 11

It is proposed that all Accountant posts are redesignated as Finance Business partners where appropriate and are evaluated and benchmarked with the intention of creating a grade range for these posts. Subject to evaluation, the proposal is that these posts will be grade-ranged from SH6 to SH7 with the normal requirement for grade progression by qualification although, in exceptional circumstances, progression by experience will be considered.

- 1.27 With the enhanced pressure on the team, and the need to meet the short-term plan expectations of the administration, it has proven necessary, with the agreement of the Head of Paid Service to engage supernumerary interim staff on top of those currently covering vacancies.
- 1.28 The Council's Strategic Director recently commissioned a 'health check' of the Accountancy team by the Council's Human Resources department; this has revealed that many of the team are facing undue workload pressures and stress around their day-to-day workloads and management. Many have

expressed an intention to seek alternative employment and we have recently experienced a number of resignations.

- 1.29 There is, in places, historic knowledge and skills gaps within the Council around budgeting, profiling, forecasting, budgetary control, purchasing, procurement and debtor management. It will be necessary to invest in greater training, support and awareness raising for budget holders and managers around the technical points of budget setting, control and management of budgets.
- 1.30 It is proposed to introduce finance training for all budget holders subject to resources being made available. This will be delivered in-house, although external resource may be engaged initially. Continuation and refresher training will be maintained. It is considered that this training should be made compulsory before anyone is permitted to hold budget responsibility, and should be monitored through the annual appraisal process.

Proposal 12

Finance training for all budget holders to be introduced and provided by the Accountancy team and attendance to be made compulsory as part of management responsibilities.

- 1.31 A summary of the key tasks of the accountancy team and the transactions team are shown at Annex B. This is not comprehensive as with other services, the teams adapt to changing demands and priorities within the Council and as set by statutory legislation and guidance.

2. Reasons for Recommendation

- 2.1 There is a strong need for a stabilisation of the Council's Financial processes. It is the view of the Council's Strategic Director Finance and Customer Service that the Accountancy service will not be able to sustain the current level of outputs required of it unless additional resource is agreed.
- 2.2 There was a requirement highlighted in the recent Corporate Peer Challenge to ensure the Council works to close the budgetary gap highlighted in its medium term financial strategy and reduce the reliance on reserve balances in the longer term. It is considered that without the appropriate permanent accountancy resource to do this, the desired outcomes would be difficult to achieve and there will be a continued reliance on short-term agency staff.

3. Proposal and Alternative Options

- 3.1 The Executive is asked to agree all the proposals shown above for the reasons provided. These are summarised at Annex A for ease of reference.

- 3.2 The Executive may choose to reject some or all of these proposals. The job profiles will still be reworked and be subject to the job evaluation process; this may determine that post will need to be regraded regardless of the Executive decision.
- 3.3 If the Executive decides to reject the stabilisation of the Council's finances, then the proposals will not be taken. The Executive is asked to confirm if it wishes the current short-term interim cover be extended to a point when the Strategic Director Finance and Customer Service considers a reasonable position has been obtained.

4. Contribution to the Council's Five Year Strategy

- 4.1 A stable financial service and systems will contribute to the general economy and to an effective and responsive Council. Without adequate finance support and systems, the Council may not be able to operate in the most effective and economic manner.

5. Resource Implications

- 5.1 The steady state budget will increase from the existing budgets. It has been acknowledged that the current team is under resourced. A ballpark calculation has indicated that the revised structure proposed will see a base budget cost increase of at least £250k but could be higher depending on the outcomes of the job evaluations and grade ranges. Although this seems a large increase, it must be considered that the recent pay benchmarking by HR indicated that most of the accountancy posts were under-graded when benchmarked across the sector. The real risk of salaries remaining below market rates is that it will prove difficult to fill the posts and cost and time will be expended on nugatory recruitment processes that will continue to deliver unsuitable candidates.
- 5.2 As the risk to the Council's financial reporting without these posts being filled is not one that the Council should be prepared to tolerate, and in order to provide sound and safe financial management, the service is already carrying a number of interims to cover these vacant posts. This is would be the more accurate baseline to assess the cost of the new steady state structure, and may actually prove to be a less expensive option if permanent recruitment can be achieved.
- 5.3 Supernumerary resources are required to give the service the only chance it has of delivering on the short-term plans of the Administration regarding sound financial management, publishing the accounts and setting a balanced budget over the medium term. These are at a cost, and unfortunately the interim accountancy market is very much weighted against the customer at present.
- 5.4 It will be a challenge to fund these resources both permanently and also for the temporary emergency stabilisation. The Strategic Finance Manager

(interim) is looking at the budgets of the service and the Council to see where there are potentially budgets that regularly are unspent or sources of income that is received against no budget. Wherever possible these will be used, along with the unspent establishment budget in the service for the vacant posts. Failing this, there will need to be a call on reserves for the emergency stabilisation.

- 5.5 A growth bid to Council will be made as part of the budget setting once the job gradings have been carried out and the full cost implications have been identified.

6. Section 151 Officer Comments:

- 6.1 The finance service is currently facing a significant challenge around staff levels, capacity and capability. Without urgent action and resources it will not be possible to maintain a viable finance function. The low remuneration on offer in the current structure has meant that recruitment of suitable and qualified accountants has not proved possible in the vast majority of cases, and there is a risk that unless these posts are filled, existing staff may seek employment elsewhere.
- 6.2 There is an urgent issue, partly generated by the additional workload of meeting the new Council's ambitions and the issues highlighted in the recent Corporate Peer Review around ensuring the Council has sustainable finances, which has meant that the current supernumerary accountants have been engaged. The current resourcing position is shown at Annex C.
- 6.3 The steady state proposal is one that will be needed to maintain the service and allow it to become more effective. The significant operational demands on a small team has meant that there has not been the capacity to establish the quality of practice and processes necessary for the Council to confidently navigate the financial challenges ahead. It is hoped that eventually the steady-state resource levels could be reduced and in the future every time a vacancy occurs, careful consideration will be given to how it is filled and with what resource.
- 6.4 Working smarter is the ambition, but currently there is no capacity for developing improvement, as the team are struggling to maintain their current workload.
- 6.5 The current in-year financial cost and position of the service will be highlighted in the quarterly revenue budget monitoring reports that are submitted to this executive.
- 6.6 It is recognised that the Council is in a difficult financial position and the call for extra resource is not made lightly. It is the opinion of the Council's Section 151 Officer that this is the level of resource required to perform the duties of the office.

7. Legal and Governance Issues

- 7.1 The resource proposals that are set out in this report and summarised at Annex A are subject to the Head of Paid Service's approval in accordance with section 4 of the Local Government and Housing Act 1989.

8. Monitoring Officer Comments:

- 8.1 No matters arising.

9. Other Considerations and Impacts

Environment and Climate Change

- 9.1 N/A

Equalities and Human Rights

- 9.2 All affected staff have been consulted with during this process. The consultation is still running at the time this report is being written. There can be a verbal update at the Executive meeting if anything has changed significantly as a result of the consultation.

Risk Management

- 9.3 There is a risk to the financial stability and reputation of the Council if adequate resource is not provided..

Community Engagement

- 9.4 N/A

Background Papers

None

Annexes

Annex A - Summary of proposals

Annex B - Activities and functions of the Accountancy and Transactions Team

Annex C - Current Staffing position and structure charts

Summary of proposals

Proposal 1: This review is proposing that the two fixed term posts be established as permanent posts within the structure.

Proposal 2: The Council moves to a finance business partner model where budgets are 'owned' by service managers at the right level and support is provided by the finance business partner. It is recognised that this could be a culture change for some and therefore a training programme will be developed and delivered.

Proposal 3: This review is therefore proposing that an additional service accountant or finance business partner be recruited to support this model across the Council.

Proposal 4: The Council's debtor procedures are subjected to a review and services guided in the implementation of the these procedures.

Proposal 5: This review is proposing that the current systems accountant role be reviewed and re-evaluated with the intention of creating a more senior and accountancy focused system specialist role.

Proposal 6: It is proposed that the current capital accountant job profile is reviewed and re-evaluated to include responsibility for the day to day treasury function and to bring it in line with the other accountants/finance business partners. Functional responsibility for Treasury and Capital will come under the Technical Manager.

Proposal 7: The current post in the I&D team which is a grade 8 (0.4fte) should transfer to the Finance Service to work with/manage the existing Procurement Officer.

Proposal 8: The Procurement Manager's role is expanded to cover contract management and the Council's insurances (in conjunction with the London Borough of Sutton). This role will need to be established as 1.0 fte.

Proposal 9: There needs to be consideration given to an additional Procurement Officer role in the team. As the remit of Procurement expands to cover more contract management support and the move of the Council to a more business-like approach, there may be a need for the team to expand. This role is not costed in the establishment and will be subject to a separate business case should the need arise.

Proposal 10: In accordance with the recommendations from the recent Corporate Peer Challenge by the LGA, and also in line with actions already underway, the Council continues to develop its project management approach, which includes full, proportionate and complete business cases, option appraisal, risk identification and management and benefit realisation plans. It is proposed that this need is recognised and developed to ensure the Council continues to follow best practice.

Proposal 11: It is proposed that all Accountant posts are redesignated as Finance Business partners where appropriate and are evaluated and benchmarked with the intention of creating a grade range for these posts. Subject to evaluation, the proposal is that these posts will be grade-ranged from SH6 to SH7 with the normal requirement for grade progression by qualification although, in exceptional circumstances, progression by experience will be considered.

Proposal 12: Finance training for all budget holders to be introduced and provided by the Accountancy team and attendance to be made compulsory as part of management responsibilities.

Activities and Functions

Accountancy

The accountancy team provides services to the council in the following areas:

- Management accounting services
 - Budget setting
 - Budget Monitoring
 - Outturn reports
- Financial accounting services
 - Annual closing
 - Publication of Statements of Accounts
 - Liaison with External Audit
- Treasury management
- Finance business partnering support to services

Transaction services

- accounts receivable
- accounts payable
- maintenance of the council Ledger
- bank, suspense and financial reconciliations
- cash posting
- grants register
- debtor control

Other services

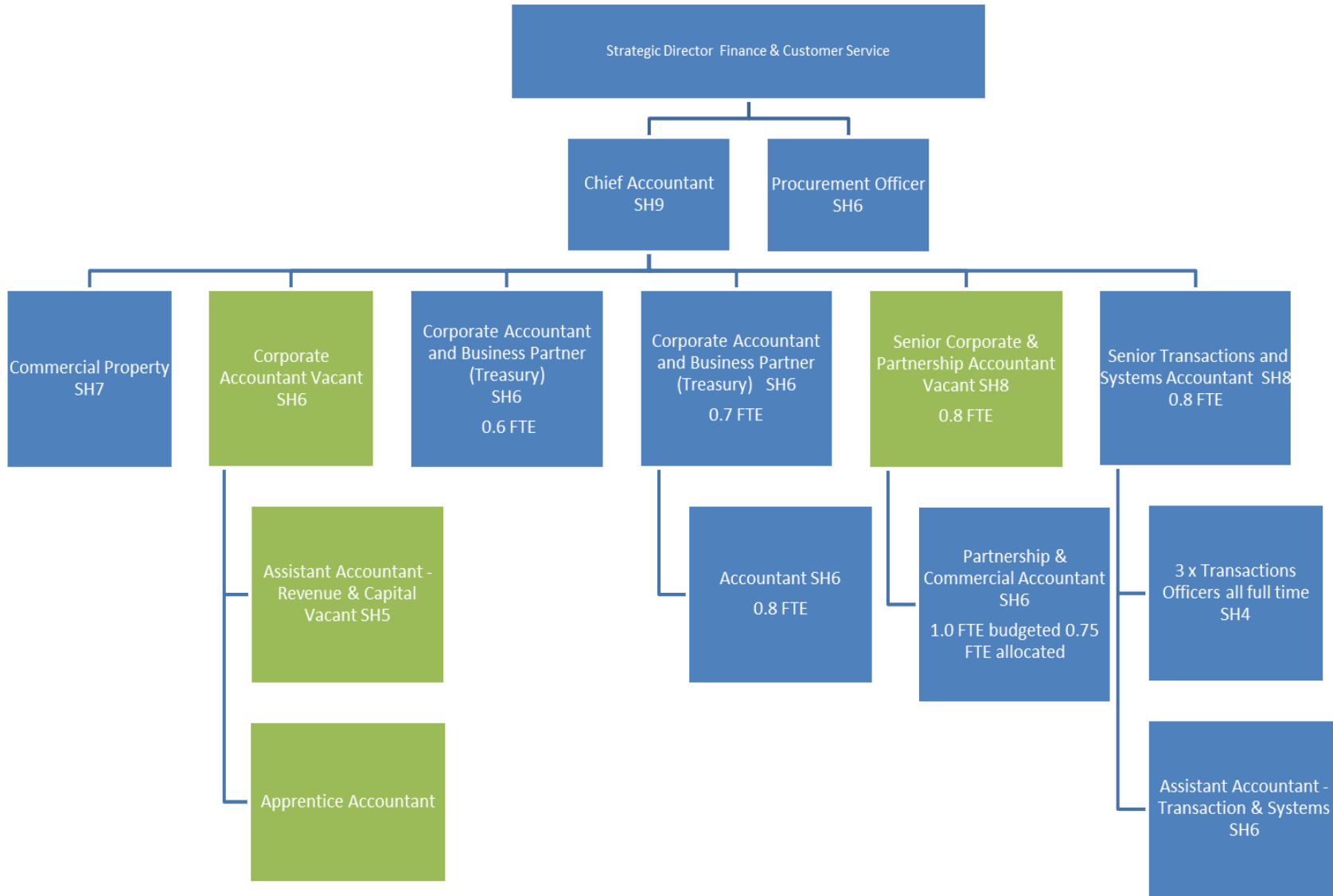
- procurement
- contract management support
- insurance

Current Staffing Position

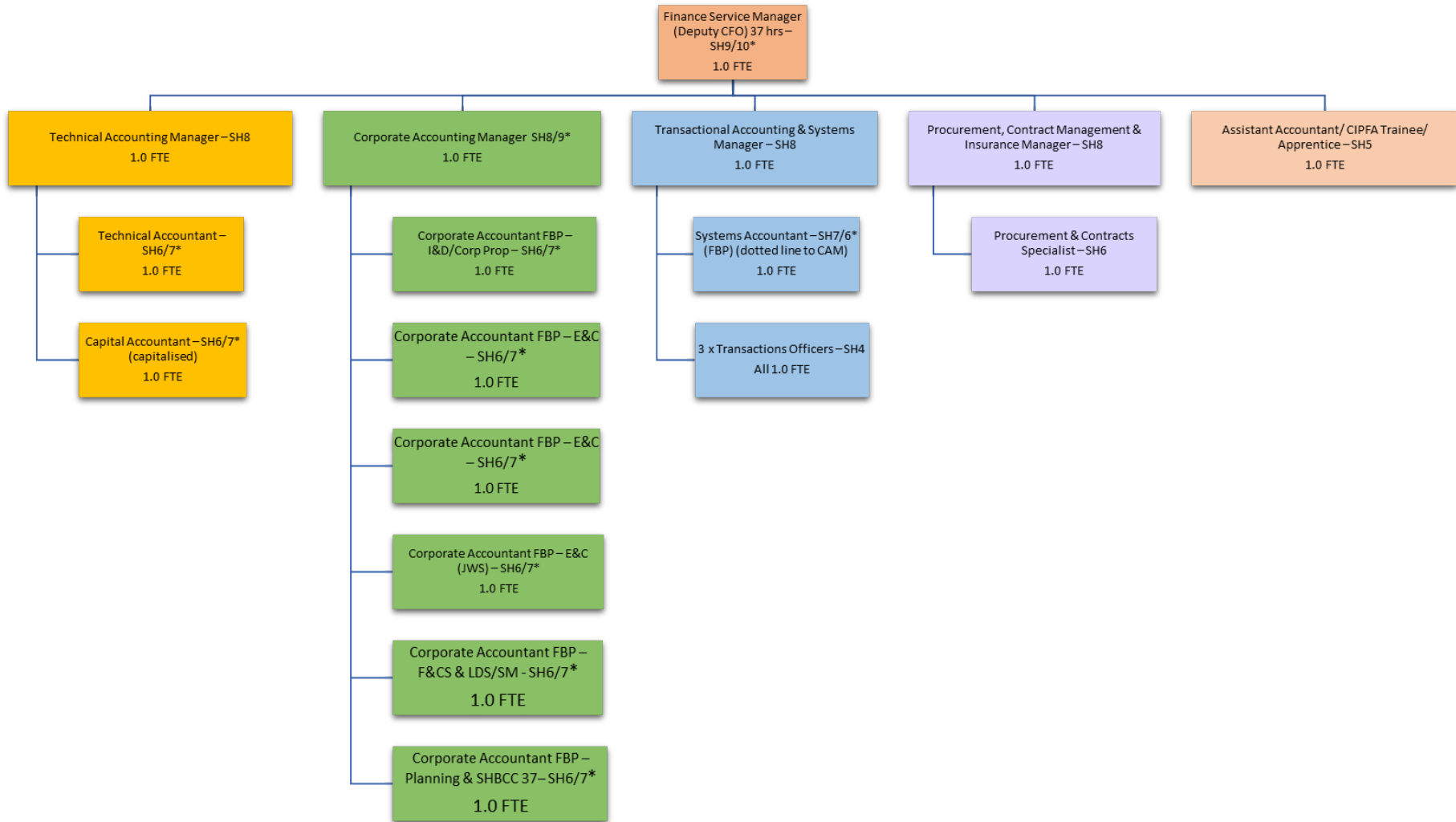
Position	Status	Established or Supernumerary
Strategic Finance Manager (deputy s.151)	Interim – end Jan 24	Supernumerary
Chief Accountant	Notice given	Established
Closing Consultant	Interim – end Jan 24	Supernumerary
Corporate Finance Manager	Interim	Established post - vacant
Transactions Team Leader	Filled	Established
Senior Technical Accountant	2 Year ftc agreed	Vacant
Technical Accountant	Filled – 2 yr secondment ftc	Creates vacancy in the accountant team
Accountant I&D	Filled	Established
Accountant E&C	Filled – part time	Established
Accountant E&C	Interim – end Jan 24	Established
Accountant JWS	Filled – part time	Established
Accountant / Treasury	Filled	Established
Accountant - interim	Interim – end Jan 24	Supernumerary
Capital Accountant	Interim – end Jan 24	Established
Assistant Accountant – Systems manager	Filled	Established
Transactions Officer	Filled	Established
Transactions Officer	Notice given	Established
Transactions Officer	Filled	Established
Temp casual for Civica cashbook project	Casual	Casual
Procurement Officer	Filled	Established

It should be noted that the current supernumerary covering the Strategic Finance Manager will notionally be held against the Chief Accountant post and the supernumerary Closing Consultant is notionally held against the technical manager role.

Current structure



Proposed structure



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