

# Finance – Future Leadership Arrangements

## Strategy & Resources Committee – 25<sup>th</sup> March 2021

Report of: Acting Chief Executive, Jackie King

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Purpose: For Decision

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Publication Status: Unrestricted

Wards affected: All

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### Executive Summary

The Council has set a priority of putting our finances onto a significantly more robust and sustainable footing. Significant progress has been made under the current interim s151 Officer who is a part-time secondee from Surrey County Council. The secondment arrangement is due to conclude at the end of March 2021.

This report sets out the results of the options appraisal and business case requested by the Committee to identify a future model for providing the Council's financial leadership. The results indicate the preferred option is for the Council to enter into an agreement with Surrey County Council in which it provides TDC with a comprehensive finance function comprising s151 role and leadership and management of a full range of financial functions.

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### This report supports the Council's priority of:

Building a better Council – making the Council financially sustainable and providing residents with the best possible services.

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### Recommendation to Committee

That the Committee agrees:

1. that its preferred option is for the Council to enter into an agreement with Surrey County Council in which it provides TDC with a comprehensive finance function comprising s151 role and leadership and management of a full range of financial functions, and supports TDC through the Tandridge Finance Transformation Plan;
  2. to authorise the Acting Chief Executive, following consultation with the Group Leaders and Chair of Strategy & Resources Committee, to approve the agreement with Surrey County Council;
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3. to authorise the Acting Chief Executive to procure an arrangement whereby the Council can draw upon external specialist financial advice (as described in para 11(i));

4. to establish a small member officer working group to monitor progress with the Tandridge Finance Transformation plan

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### Reason for Recommendation

The Council is required by law to designate a named finance professional as its s151 (Chief Finance) Officer. With the expiry of the current secondment arrangement at the end of March 2021, the Council must determine its future model for providing financial leadership.

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### Introduction and Background

- 1 The Council has, in recent months, embarked on a significant programme of improvement. Our Corporate Improvement Plan was approved in January 2020, followed by our four-year Strategic Plan which was approved in July. Central to both is financial recovery, with the objective of putting our finances onto a significantly more robust and sustainable footing.
- 2 The Council has not had a permanent s151 Officer for some time and, since summer 2020, the role of s151 Officer has been provided on a part-time secondment basis by a senior finance officer from Surrey County Council.
- 3 The Interim s151 Officer (secondment from Surrey CC) has instigated a series of financial recovery actions, to ensure more robust management of the Council's finances. Notably this has changed the approach to financial management of the Council's finance team with the introduction of a finance business partnering model, placing finance at the heart of the Council's decision-making. A Finance Improvement Programme has focused on "getting the basics right" with improvements to reporting, grip and control, and capitalisation policy; and has contributed to a closing of the projected budget gap for 2020/21 and successful budget-setting for 2021/22, whilst also building General Fund Reserves. Positive feedback has been received from MHCLG.
- 4 The secondment arrangement is due to conclude at the end of March 2021, and the Council must therefore consider its options for securing future financial leadership and further transformation of the finance function. There is an imperative to sustain our financial recovery trajectory and strengthened financial management capability and capacity. The continuation of the secondment arrangement is not considered to be a sustainable option.
- 5 This Committee on 2<sup>nd</sup> February agreed that an options appraisal and business case should be undertaken to identify a future model for providing the Council's financial leadership, requiring the Acting Chief Executive to report back to the Committee on 25<sup>th</sup> March for decision. The work has been conducted independently by an experienced finance consultancy, PJH Management Consulting Ltd, and the report setting out the options appraisal and outline business case is **attached at Appendix A**.

## Options Appraisal and Business Case

6 The report appraises two key options:

- **Option 1:** Recruit a permanent employee to the post of s151 Officer.
- **Option 2:** Enter into an agreement with Surrey County Council in which it provides TDC with a comprehensive finance function comprising s151 role and leadership and management of a full range of financial functions (SCC's proposition document is attached at Appendix 1 to the options appraisal and outline business case).

A further option, in which TDC shares a finance function with a local district or borough council was also explored. The Acting Chief Executive initiated conversations with local district and borough councils in both Surrey and Kent, to test the appetite for a sharing of finance functions. No council has, to date, expressed interest in developing a sharing proposal – reflecting both a reluctance to share a critical corporate function and a lack of capacity to prepare and deliver a shared service model. It is possible that sharing options with local districts might emerge in the long-term, but for the purposes of this report it is concluded that this is not a viable option in the short-term.

7 Additional context for the options appraisal is a recent review by the Local Government Association (LGA) which highlighted significant weaknesses (around capacity, processes and systems) in the way the finance function operates. A common assumption has therefore been made for both options – that for the purposes of the option appraisal it is assumed that the appointee would have a mandate within TDC to lead the transformation of the finance function and to implement the recommendations of the LGA Review, including increasing the capacity of the finance team.

8 The options appraisal uses three key criteria to test the options. These are:

- Impact on financial recovery, financial management transformation and sustainability
- Deliverability (including urgency)
- Cost and value for money

9 The options appraisal is summarised as follows (assessing options as High/Medium/Low against the three criteria):

| Criteria   | Option 1<br>(recruit and provide in-house) | Option 2<br>(Surrey CC provide) |
|--|--|---------------------------------|
| Impact on financial recovery, financial management transformation and sustainability | Medium                                     | High                            |
| Deliverability (including urgency)   | Low  | Medium                          |
| Cost and value for money   | Medium                                     | Medium                          |

10 The appraisal therefore concludes that Option 2 (Enter into an agreement with SCC in which it provides TDC with a comprehensive finance function comprising s151 role and leadership

and management of a full range of financial functions) scores more highly against the key criteria, and is the preferred option.

- 11 The report then proceeds to test the preferred option further, using an outline business case methodology recommended by HM Treasury. The key points are:
- (i) Four key risks to TDC are identified, together with recommended mitigating actions. These are about:
- ensuring a robust agreement under s113 of the Local Government Act 1972 that clarifies roles, responsibilities and mutual expectations;
  - TDC access to external financial advice for an annual review of the SCC service and for the exceptional occasions when the s151 Officer has a conflict of interests;
  - continued staff engagement and consultation; and
  - further development of the business partnering approach to maintain close working relationships between the finance team and TDC.
- (ii) A programme management approach is recommended, with close TDC review to monitor progress through three key phases of activity:
- Initial due diligence by both parties (4-6 week) leading to finalisation and signing of the agreement by both parties.
  - Tandridge Finance Transformation (up to March 2022) - this phase will enable the restructuring of the finance function, improvement of key processes, development of business partnering and strengthening of budget accountability. During this period, staff will remain on TDC employment contracts, and any restructuring undertaken in accordance with TDC change management procedures.
  - Ongoing operation - this will be a “steady state” where the TDC financial processes have largely been transformed. There will be strategic choices for TDC to make about the future basis of employment of finance staff; and around access to SCC’s new financial systems.
- (iii) Final costs for the service to be provided by SCC will need to be determined in the “due diligence” period and included in the formal agreement. However the expectation is that SCC, partly because of its existing range of skills and experience and some economies of scale, will be able to resource the transformation period at a lower cost than could realistically be achieved in-house for the same outcomes.
- 12 **The report concludes that the provision by SCC of a comprehensive finance function is deliverable and will enable TDC to benefit from the scale, relevant experience and range of skills of the SCC finance team, offering continuity for TDC’s financial improvement trajectory and an acceleration of the transformation of its finance function.**
- 13 It is further recommended that TDC set up a review group to monitor progress with the Transformation Plan. This should involve a small group of members and senior officers including the Chief Executive.

## **Other Options Considered**

The options appraisal and business case provide the information for Committee to consider the issues and to make an informed decision on the way forward.

## **Consultation**

Initial discussion has been undertaken with the political Group Leaders, to gather views to inform the drafting of this report. Engagement with members, senior officers, staff conference and the TDC finance team has been undertaken as part of the options appraisal and business case.

## **Key Implications**

### **Comments of the Chief Finance Officer**

The Chief Finance Officer is fully supportive of the independent approach conducted in terms of the business case and timelines presented in this report. A decision from Members must be reached as a matter of urgency as the Finance team require a permanent s151 officer to provide leadership and stability, given the current arrangements are due to terminate at the end of March 2021.

### **Comments of the Head of Legal Services**

The Council has the necessary legal powers to implement the delivery models being explored for the establishment of shared service arrangements. Sections 111 & 113 of the Local Government Act 1972, Section 2 of the Local Government Act 1972 and the Local Authorities (Goods and Services) Act 1970, will enable both Councils to formally regularise the increasing co-operations that are taking place.

Section 111 of the Local Government Act 1972 is entitled "Subsidiary powers of local authorities". It is a generalised catch-all provision to enable local authorities to "do anything.... which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions" (Section 111(1)). The use of the power under Section 111 is by its very nature applied to a very wide range of local authority functions, and its use must be subsidiary to the discharge of a function.

Under section 113 of the Local Government Act 2000, a local authority may enter into an agreement with another local authority for the placing at the disposal of the latter authority the services of staff employed by the former authority. Section 113 provides that this arrangement cannot be entered in respect to any Officer, without consulting with him/her. The effect of this is that an Officer can effectively be directed to work for another authority, if there is a clause in his/her contract of employment that allows for this.

Under Section 2 of the Local Government Act 2000 every local authority has power to do anything which they consider is likely to achieve the promotion or improvement of the economic, social or environmental wellbeing of their area. This is the closest that the law in relation to local government functions comes to conferring on councils what is sometimes referred to as a 'power of general competence'.

The Local Authorities (Goods and Services) Act 1970 allows local authorities to make arrangements with each other for the provision of goods, administrative, professional or technical services and vehicle, plant or apparatus.

## **Equality**

It is not foreseen that there are any direct equality implications as a result of the recommendations in this Report. Options will be rigorously assessed as part of the appraisal and business case for equalities implications.

## **Climate Change**

There are no significant environmental / sustainability implications associated with this report.

## **Appendices**

**Appendix A** - PJH Management Consulting Ltd, and the report setting out the options appraisal and outline business case

**Appendix 1 to Appendix A** - SCC's proposition document

## **Background Papers**

Report to Strategy & Resources Committee, 2<sup>nd</sup> February 2021.

Local Government Association, Finance Review Report for Tandridge District Council, January 2021.