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OVERVIEW AND SCRUTINY COMMISSION - FINANCIAL MONITORING TASK GROUP

30 AUGUST 2018

(7.15 pm - 9.35 pm)

PRESENT: Councillor Stephen Crowe (in the Chair),
Councillor Nigel Benbow, Councillor Paul Kohler,
Councillor Aidan Mundy, Councillor Owen Pritchard,
Councillor Eleanor Stringer and Councillor Peter Southgate

ALSO PRESENT: Caroline Holland (Director of Corporate Services), Roger Kershaw (Assistant Director of Resources), Bindi Lakhani (Head of Accountancy), Zoe Church (Head of Business Planning), David Keppler (Head of Revenues and Benefits) and Julia Regan (Head of Democracy Services)

1 ELECTION OF CHAIR (Agenda Item 1)

Councillor Stephen Crowe was elected as Chair.

2 APOLOGIES FOR ABSENCE (Agenda Item 2)

Apologies were received from Councillor David Williams.

3 DECLARATIONS OF PECUNIARY INTEREST (Agenda Item 3)

There were no declarations of pecuniary interest.

4 MINUTES OF LAST MEETING - 6 MARCH 2018 (Agenda Item 4)

The minutes were AGREED as an accurate record of the meeting, subject to the correction of the title for item 4 on page 3 to read 14 November 2018 instead of 2017.

Matters arising

The Director of Corporate Services, Caroline Holland, reported that there would be no risk share for Better Care Fund in 2018/19.

Caroline Holland handed out information to show unachieved savings shortfall by expenditure type. This will be published on the website alongside these minutes.

The Chair reported that all the work programme suggestions from the meeting on 6 March 2018 had been included in the report at item 8 on this agenda.

5 BUDGET OUTTURN REPORT 2017/18 (Agenda Item 5)

The Director of Corporate Services, Caroline Holland, introduced the report and summarised the content.

General questions

In response to a request for trend analysis of departmental spending, Caroline Holland said that it would not be meaningful to go back more than four years due to changes that had taken place in departments.

Caroline Holland explained that the council does not do zero based budgeting. The budget rolls forward year on year with adjustments made for pay and price inflation, growth and savings.

The council has an overall risk register that is reported to the Standards and General Purposes Committee and to Cabinet. Financial risks are included within the general register, there is no separate register for financial risk.

Caroline Holland outlined the council's approach to building up and drawing down on various reserves. There is an annual report to Cabinet on the council's reserves that is also received by the Overview and Scrutiny Commission.

Members expressed interest in looking at the accuracy of service expenditure forecasting in more detail and in understanding the processes used. Caroline Holland said that the table on page 7, showing the forecast at each month end over the past four years, could be produced for each department.

The Merton Improvement Board oversees the council's transformation programme, including a programme of Lean reviews that have been identified by Directors. Members expressed an interest in receiving an update on learning from lean reviews.

Merton's membership of the South London Waste Partnership has resulted in significant financial savings and other benefits including better information on the waste rounds.

The external auditors are still finalising the accounts due to an issue with valuations.

Revenue budgets

Caroline Holland provided additional information and clarification in response to questions:

Corporate Services

The forecast over-achievement of income by Merton's bailiffs is largely due to an increase in the number of parking warrants issued.

The underspend in HR, partly due to the level of vacancies, has not had an impact on the council's ability to recruit to other services.

Environment and Regeneration

The underspend in property management was forecast at £272k in December and revised in subsequent reports to Cabinet. The sheer number of reviews made this difficult to forecast. Progress has been made in relation to the backlog.

The work of the council-owned property company, Merantun, is at an early stage and is reported to Cabinet's Property Sub-Committee.

Children Schools and Families

Members expressed concern at the level of predicted overspend and questioned the decision not to allocate monies for the unfunded budgets for un-accompanied asylum seeking children and no recourse to public funds. Caroline Holland said that work was underway to identify efficiencies and look at the contributions made by the Clinical Commissioning Group and NHS England that she anticipated would reduce the level of forecast overspend during 2018/19.

Community and Housing

In response to a question about why there had been a forecast overspend from the start of the financial year, Caroline Holland said that the forecast level of overspend had been a surprise and was associated with pressures in the cost of temporary accommodation and with implementation of requirements arising from the Homelessness Reduction Act.

Capital budget

Slippage is the practice of moving money that has not been spent in one financial year into a future year(s) if the funding is still required for that capital project. Proposed slippage is taken to Cabinet for approval.

The council uses the most cost effective way of funding the capital programme, namely capital receipts, grants and reserves rather than external borrowing.

6 FINANCIAL MONITORING REPORT - QUARTER 1, 2018/19 (Agenda Item 6)

The Director of Corporate Services, Caroline Holland, introduced the report, which has been presented to the task group prior to going to Cabinet. Caroline Holland drew the task group's attention to the forecast net overspend at year end of £2.6m and the adjustments proposed to the capital programme.

Revenue budgets

Caroline Holland provided additional information in response to questions:

- It is assumed that the contingency budget (page 84) will be fully utilised
- The forecast underspend in Public Protection (page 63) is largely due to an overachievement in parking fees and penalty charge notices. Monies raised are re-invested and information on this is published in the accounts and on the council's website.
- Finance officers are working with schools to address deficits in the Dedicated School Grant services (page 69)
- It is difficult to forecast the number of unaccompanied asylum seeking children and associated costs. Officers work to obtain the most cost-effective support

for individual children, including through an annual recruitment programme for foster carers plus identification of supported lodging.

- The adult social care precept monies are used to fund costs associated with the provision of adult social care services
- The council has a reserve for rent deposits and work is underway to obtain a better understanding of how the rent deposits budget works (page 75)
- Negotiations with Veolia are ongoing. Monies raised from the penalty clause will eventually show on the waste services underspend figure (page 63). Caroline Holland will check the position and report back.

Miscellaneous debt update

Caroline Holland and the Head of Revenues and Benefits, David Keppler, responded to questions.

In relation to the difference between the levels of outstanding debt in June 2018 compared to March 2018 (page 115), David Keppler explained that both figures were snapshots, that although Merton has a relatively good collection rate, collecting debt is difficult and can take time. The council has a year in which to collect debt, after which point a debt can be re-registered. A sample of “out of time” debts are currently being examined to assess whether it would be cost effective to re-register them.

The council does not sell its debt to other organisations. This was considered some years ago in relation to mortgage debt but there was little interest expressed. Caroline Holland added that the council is using a specialist company on a one year trail basis to collect some of the larger adult social care debts and debts for deceased debtors.

7 ESTABLISHMENT CONTROL AND VACANCY REPORTING (Agenda Item 7)

The Director of Corporate Services, Caroline Holland, said that staffing is the largest item of expenditure and so the departmental management teams all review the figures each month. In response to a question, she undertook to check the figure of 15% of gross General Fund spend given in on page 119.

NOTE: subsequent to the meeting the Director has confirmed that the figure is accurate as it excludes schools.

Caroline Holland explained that some unfilled vacancies are held as potential savings, some are out to recruitment and some are covered by casual or temporary workers. There are challenges in the recruitment of some groups of staff who may prefer not to accept permanent positions as they would then be paid less than for temporary work or similar work in the private sector.

Staff turnover is below 12% which is relatively low.

The task group RESOLVED to request that for future meetings the overall summary table (page 123-4) should provide comparative data for each quarter.

8 WORK PROGRAMME (Agenda Item 8)

Task group members discussed the work programme items suggested in the report and issues that had emerged from their discussion of the budget outturn and quarterly financial monitoring reports. Members agreed to have a balance of items firstly to deepen their understanding of aspects of the council's medium term financial strategy and secondly to examine the financial implications of some of the council's contractual arrangements.

It was AGREED that the Chair and Head of Democracy Services would meet with the relevant Directors to seek advice on timetabling the following items for future meetings:

- budget forecasting – how this process is carried out and what is being done to assist officers to forecast with more accuracy
- financial risk management – to understand how this is assessed and managed
- contingency funds and reserves
- Veolia - deep dive into financial aspects of the contract, members particularly wish to understand the penalty clauses and the extent to which penalties monies had and would be collected.
- IdVerde - deep dive into financial aspects of the contract
- Merantum – deep dive to understand the financial modelling and an update on progress

ACTION: Chair and Head of Democracy Services

The task group AGREED to have a meeting in July 2019 to consider the budget outturn report for 2018/19 – ACTION: Head of Democracy Services

Task group members requested a copy of the Business Plan – ACTION: Director of Corporate Services