

Agenda Item 3

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OVERVIEW AND SCRUTINY COMMISSION - FINANCIAL MONITORING TASK GROUP

13 NOVEMBER 2018

(7.15 pm - 8.55 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), Zoe Church (Head of Business Planning), David Keppler (Head of Revenues and Benefits), Bindi Lakhani (Head of Accountancy) and Julia Regan (Head of Democracy Services)

1 APOLOGIES FOR ABSENCE (Agenda Item 1)

Apologies were received from Councillor David Williams.

2 DECLARATIONS OF PECUNIARY INTEREST (Agenda Item 2)

There were no declarations of pecuniary interest.

3 MINUTES OF LAST MEETING - 30 AUGUST 2018 (Agenda Item 3)

The minutes were AGREED as an accurate record of the meeting.

Matters arising:

- Page 2 – trend analysis of departmental spending has now been produced to the task group's satisfaction
- Page 2 - an update on learning from Lean reviews will be added to the task group's work programme
- Page 2 – the Director of Corporate Services informed the task group that the accounts have now been signed off by Standards and general Purposes Committee and the external auditors
- Page 5 – vacancy trend data has now been provided in the financial monitoring report
- Page 5 - July 2019 meeting date to be arranged – Head of Democracy Services to liaise with Head of Accountancy
- Page 5 – Business Plan has been provided to some members on request and they agreed to share with other members of the task group

4 BRIEFING ON BUDGET FORECASTING (Agenda Item 4)

Bindi Lakhani, Head of Accountancy, introduced the report, drawing members' attention to the financial regulations and the processes followed to forecast, review and monitor service budgets. The finance team provide support to service managers, particularly for those with volatile budgets. The overarching aim to the balance the budget. Where there is a predicted overspend, action will be taken to find a commensurate underspend wherever possible.

Bindi Lakhani, Caroline Holland (Director of Corporate Services) and Roger Kershaw (Assistant Director of Resources) provided additional information in response to questions:

- A volatile budget is one where there is unplanned expenditure and/or new and uncontrollable demand. The Children Schools and Families budget is particularly volatile due to the unpredictable nature of placement and SEN transport budgets.
- There are contingency reserves that can be used to meet unplanned expenditure but this would be a last resort.
- Some income budgets are also at risk of overspending and finance officers are providing assistance with this.
- The e5 budgetary control package assists with spend control by blocking orders when there is no budget available for that item – this can only be overridden with the permission of the Director of Corporate Services.
- The capital budget is rolled forward by one year each year, Capital spend is modelled over a 4 year period to include information on the impact on the revenue budget

Councillor Pritchard asked to see the CSF risk register in order to deepen his understanding of how financial risks are identified and recorded. ACTION: Director of Children, Schools and Families

5 BRIEFING ON FINANCIAL RISK MANAGEMENT (Agenda Item 5)

Roger Kershaw, Assistant Director of Resources, introduced the report. He said that financial risk management is taking place in an unprecedented period of uncertainty for local government finance as well as increasing financial pressures. He drew the task group's attention to the list of factors set out on page 23 of some of the key financial pieces that are still unknown in relation to planning a balanced budget for 2019/20 and beyond. He said that the council approaches these challenges through rigorous financial monitoring, a strong budget report, oversight by internal and external audit as well as a strong internal scrutiny function, of which the task group forms part.

Roger Kershaw also drew the task group's attention to the resilience index which is being developed by CIPFA (pages 26 and 27 of the report).

Members thanked Roger Kershaw for the report and said that the management of strategic risk is done well and well assured both internally and externally. Roger Kershaw said that the key focus of the risk register is not only on identifying risk but also on mitigating action.

Members had some questions about operational risk and were informed that these are recorded on the departmental risk registers. Departments are challenged on the content of their risk registers and there is evaluation of large projects to identify lessons learned.

Roger Kershaw, Caroline Holland (Director of Corporate Services), Zoe Church (Head of Business Planning) and David Keppler (Head of Revenues and Benefits) provided additional information in response to questions:

- There is no ideal number for CIPFA indicator 3 (page 27), it is about gearing and comparison with other authorities and over time
- Croydon was visited by officers (paragraph 2.10) as it had been identified as having clear definitions of risk
- Merton enters into shared service arrangements when there is a clear benefit to the council and residents
- Pension liabilities and assets are not included on the corporate risk register because Merton's pension fund is in a good position and is an ongoing fund.

In response to a question about what lessons could be learned from Northamptonshire's predicament, Roger Kershaw said that he had identified the following aspects:

- Huge optimism bias
- Regular non-delivery of savings
- Weak budget control
- Excessive use of reserves
- Reluctance of service departments to own savings
- Historic loss of control over spending
- Poor internal and external scrutiny of the budget

Caroline Holland added that there are well-run authorities that are also at risk of running out of money.

The report was introduced by Caroline Holland, Director of Corporate Services. She drew the task group's attention to the forecast net overspend at year end of £1.92m (down from £2.78m in period 5); the detailed capital budget monitoring information in the report and in Appendix 5C; the debt report showing some reduction in debt outstanding; and the trend data that has been provided on vacancies.

The Chair said that he was pleased to see the reduction in outstanding debt and that the trend data on vacancy information (page 124) was helpful. He asked that the June and September vacancy data should be retained and shown alongside the December figures when the Quarter 3 data is reported to the task group. ACTION: Head of HR

In response to a question about pressures on the Children. Schools and Families budget and whether growth should be built in to the budget, Caroline Holland said that she would require externally validated evidence before taking that step, as this would add to the budget gap, in the same way as had been done for the adult social care budget previously.

7 DATES AND AGENDA ITEMS FOR FUTURE MEETINGS (Agenda Item 7)

The task group AGREED the work programme as set out in the report, with the addition of three new items:

- Update on learning from Lean reviews (date to be confirmed)
- Update on debt and the use of the specialist debt review company (at April or July meeting)
- Departmental risk registers (Chair to discuss with Director of Corporate Services to ascertain most appropriate approach)