

Merton Council

Standards and General Purposes Committee Agenda

Membership

Councillors:

Peter McCabe (Chair)
Adam Bush (Vice-Chair)
Agatha Mary Akyigyina OBE
David Williams
John Dehaney
Eloise Bailey
Ben Butler
Pauline Cowper
Brenda Fraser
Joan Henry
Dickie Wilkinson
Nick McLean

Substitute Members:

Paul Kohler
Marsie Skeete
Peter Southgate
Dave Ward
Omar Bush
Oonagh Moulton

Date: Thursday 6 September 2018

Time: 7.15 pm

Venue: Committee Rooms C, D & E - Merton Civic Centre, London Road,
Morden SM4 5DX

This is a public meeting and attendance by the public is encouraged and welcomed.
For more information about the agenda please contact or telephone .

All Press contacts: communications@merton.gov.uk, 020 8545 3181

Standards and General Purposes Committee Agenda

6 September 2018

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Note on declarations of interest

Members are advised to declare any Disclosable Pecuniary Interest in any matter to be considered at the meeting. If a pecuniary interest is declared they should withdraw from the meeting room during the whole of the consideration of that matter and must not participate in any vote on that matter. If members consider they should not participate because of a non-pecuniary interest which may give rise to a perception of bias, they should declare this, withdraw and not participate in consideration of the item. For further advice please speak with the Assistant Director of Corporate Governance.

Agenda Item 3

STANDARDS AND GENERAL PURPOSES COMMITTEE

30 JULY 2018

(7.15 pm - 8.58 pm)

PRESENT Councillors Councillor Peter McCabe (in the Chair),
Councillor Adam Bush, Councillor Agatha Mary Akyigyina,
Councillor John Dehaney, Councillor Eloise Bailey,
Councillor Thomas Barlow, Councillor Ben Butler,
Councillor Pauline Cowper, Councillor Brenda Fraser,
Councillor Joan Henry and Councillor Dickie Wilkinson

ALSO PRESENT Suresh Patel – Associate Partner, Ernst & Young

Caroline Holland – Director of Corporate Services
Fiona Thomsen – Head of Shared Legal Services
Roger Kershaw – Assistant Director – Resources
Margaret Culleton – Head of Internal Audit
Zoe Church – Head of Business Planning
Steve Bowsher – Chief Accountant
Amy Dumitrescu – Democratic Services Officer

1 APOLOGIES FOR ABSENCE (Agenda Item 1)

Apologies were received from Councillor David Williams. Councillor Omar Bush attended as substitute.

2 DECLARATIONS OF PECUNIARY INTEREST (Agenda Item 2)

There were no declarations of pecuniary interest.

3 MINUTES OF PREVIOUS MEETINGS (Agenda Item 3)

RESOLVED: That the minutes of the meetings held on 27 February 2018 and 15 March 2018 are agreed as an accurate record.

4 AUDIT PROGRESS REPORT (Agenda Item 4)

The External Auditor presented the report and highlighted that compared to the previous year the timescale for Local Authority accounts was shorter with the accounts needing to be prepared by the Council by the end of May (previously June) and the audit completed on these accounts by the end of July (previously September). It was recognised that this would be a challenge particularly in the first year. He also commented that he had had good engagement with the Finance team during the audit.

The External Auditor highlighted two main issues for the Committee to be aware of:

- 1) There had been a number of significant issues identified with the valuation of the Council's Property Plant and Equipment (PPE), specifically specialist assets such as schools. As a result the Council has had to undertake significant work to re-calculate those figures (for 2015/16, 2016/17 and 2017/18). Issues had been flagged in relation to the work of the in house Council valuer and therefore External Audit had engaged their own experts to carry out specialist work to look at this, which would be commencing in due course. This was the most significant issues that the auditors had identified during the audit.
- 2) Other areas had been identified as needing revising in the accounts including recharges in the Comprehensive Income and Expenditure Statement and a number of prior period adjustments which did not meet the accounting standards definition.

As a result of the significant PPE and other errors identified the External Auditor informed the Committee that the level of materiality used to inform audit testing had been reduced from the level communicated in the Audit Plan (March 2018). This reduction had meant that the External Auditor needed to revisit work conducted to date and carry out additional testing work.

Given these issues, the Committee was informed that the external audit was still in progress and the External Auditor was not in a position to issue the auditor's report by the deadline of 31 July 2018. The External Auditor had arranged resources to carry the work out in August and the results would be brought to the next meeting of Standards and General Purposes Committee in September 2018.

The External Auditor advised that, as highlighted in the report, in regards to value for money conclusion the Local Authority transaction in relation to the Elim Church had been investigated following correspondence from a member of the public. The External Auditor advised the Committee that following this work, they were satisfied that the Local Authority approach was reasonable for that transaction.

In response to member questions, the External Auditor advised that the new shorter timescale had been introduced by government and that his understanding was that approximately 10% of Local Authorities may miss the 31 July deadline, with those who did named in a report in the Autumn.

Members discussed the Audit Progress report in depth further and sought assurance from officers and external audit that lessons would be learnt going forward. External Audit and Officers responded that lessons had been and would continue to be learnt.

External Audit responded to a further member question in regards to the additional audit fee that this would be dependant on the extent of the work required and this would be known at the end of August and therefore included in the report at the September meeting.

5 FEE LETTERS FOR THE COUNCIL AND PENSION FUND ACCOUNTS (Agenda Item 5)

The External Auditor presented the Fee Letters, advising that following a procurement process EY were appointed as the Council's auditor for 2018/19 and

therefore the fee letter outlined the set fees that would be charged for the upcoming year.

6 AUDITED FINAL ACCOUNTS 2017/18 (Agenda Item 6)

The Director of Corporate Services presented the report advising that the figures were the current figures available and that the adjustments that officers were aware of had been tabled at the meeting. As the auditor had found an error which affected property valuations in the accounts back to 2015/16, these had been required to be re-done for each year (2015/16, 16/17, 17/18) and this had required some major changes, however it was re-iterated that this had not meant an increase in funds for the Local Authority. The Director of Corporate Services advised that they had been working closely with External Audit to ensure the information was available as much as possible and that a notice had been placed on the Councils' website to explain that the deadline for publication of the accounts would not be met. It was noted that there were a number of other local authorities in the same position .

In response to member questions the Director of Corporate Services advised that further work would be done and the Committee would be updated on the progress of the accounts. However it was noted that the Pension Fund accounts had been successfully audited with no issues raised, although the auditor's report could not be issued until the Council accounts had been audited.

In response to further questions the Assistant Director of Resources explained that in regards to the Pension Fund investing in fossil fuels, a new strategy was agreed last year which has resulted in a much lower carbon footprint.

Following a member question regarding the pension board having not met in the year of the audit, officers responded that the board had met in the previous week and that there was an ongoing training programme for members of the panel.

The Chair advised that as the statement of accounts was not complete, the recommendations in the report were unable to be agreed, however the Committee agreed to note the progress made on the accounts and would look to agree the final accounts at the next meeting in September.

RESOLVED: That the Committee noted the progress on the Final accounts.

7 ANNUAL GOVERNANCE STATEMENT (Agenda Item 7)

The Head of Internal Audit presented the report, advising that it was an annual statement required to support the accounts and a working group of officers met throughout the year with a final review at the year end to complete the statement. The report also contained an update on actions from the previous year and upcoming actions for the year 2018/19.

In response to member questions, officers advised that the new financial system was constantly under review, that work on GDPR was ongoing and that officers continued to work to address staff sickness levels.

RESOLVED: That the Committee agreed the Annual Governance Statement.

8 INTERNAL AUDIT ANNUAL REPORT (Agenda Item 8)

The Head of Internal Audit presented an overview of the report and advised that there would be a further update at the meeting in September 2018, stating that there was a 3 year rolling programme with the focus on those areas which had increased risks associated with them.

In response to member questions, the Committee were advised that the unpaid fees in regards to school meals contracts had now been paid however the audit of the monitoring of the contract was still being finalised.

In response to a member question on minimising tenancy fraud, the Head of Internal Audit responded that the Fraud Partnership undertake work with Merton Priory Homes to data match as well as investigating referrals from members of the public.

RESOLVED: That the Standards and General Purposes Committee reviewed and commented on the Internal Audit Annual Report 2017/18.

9 ANTI FRAUD AND CORRUPTION STRATEGY AND WHISTLEBLOWING POLICY UPDATE (Agenda Item 9)

The Head of Internal Audit presented the report, advising that the policies had not been refreshed for a number of years and were therefore being reviewed. The Head of Internal Audit highlighted a number of minor changes that had been made to the policy and outlined the Council's approach to fraud, advising that the Council consider prosecution for all types of fraud.

Members asked questions regarding fraud training for Council staff and the Head of Internal Audit advised this was being rolled out to staff shortly.

RESOLVED: That the Committee commented upon and approved the revised Anti Fraud and Corruption Strategy and Whistleblowing policy.

10 TEMPORARY AND CONTRACT STAFF UPDATE (Agenda Item 10)

RESOLVED: That the public were excluded from the meeting for the following item of business on the grounds that they involved the likely disclosure of exempt information as defined in paragraph 2 Schedule 12A of the Local Government Act 1972.

The Director of Corporate Services presented the report and highlighted certain areas where recruitment and retention remained an issue.

Members discussed the report in depth and asked questions regarding succession planning, comparison of usage to previous years and the use of "temp to perm" in employing long term agency staff.

RESOLVED: That progress made to monitor and control the use of Temporary workers and consultants was noted.

11 COMPLAINTS AGAINST MEMBERS (Agenda Item 11)

The Committee received a verbal update from the Head of Shared Legal Services, who advised that there had been one complaint received since the March meeting however it had been decided that it did not merit investigation. The Head of Shared Legal Services advised the level of complaints were generally very low and confirmed there were currently no complaints being considered against any Merton Councillors.

12 APPOINTMENT OF INDEPENDENT PERSON (Agenda Item 12)

The Head of Shared Legal Services advised the Committee that following the post being advertised, no applications for the role had been received and therefore the advertisement would be reposted in September and would also be advertised on Social Media.

13 WORK PROGRAMME (Agenda Item 13)

The Work Programme was noted and agreed.

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Committee: Standards and General Purposes

Date: 6th September 2018

Agenda item:

Wards: All

Subject: Audited Final Accounts 2017/18

Lead officer: Caroline Holland, Director of Corporate Services

Lead Member: Cllr Mark Allison – Cabinet Member for Finance

Contact officer: Roger Kershaw: AD of Resources 0208-545-3458

Key decision reference number: This report is written and any decisions taken are within the Budget and Policy Framework Procedure Rules as laid out in Part 4-C of the Constitution.

Recommendations:

1. That Committee note the progress made on auditing the Statement of Accounts, including the Group Accounts and the Pension Fund Accounts subject to any further comments from the External Auditor.
 2. That Committee note EY's Audit Progress report which includes their Value For Money assessment (attached to this report at appendix 1).
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1. Purpose of report and executive summary

- 1.1 This report provides an update on the audit of the Statement of Accounts for the year ended 31 March 2018 in accordance with the statutory requirements contained in the Accounts and Audit Regulations 2015 and the ISA 260.
- 1.2 Members will recall that the Council met the deadline for having the Statement of Accounts ready for audit by the new shortened deadline of 31 May 2018. However, we reported at the last Committee that the deadline for approving and signing off the Accounts by 31 July 2018 was missed due, predominantly to additional work required to the valuation of Property, Plant and Equipment (PPE). It appears that at least 10% of Councils have missed this deadline, including 3 London Boroughs.
- 1.3 This report advises Members that the valuation work is still not complete and may take us beyond September 2018 to finalise. In addition, and at the time of writing this report, a number of non PPE issues remain outstanding. Officers are working hard to resolve these issues and an update will be provided at the meeting.

2. Audit Work

- 2.1 In their Audit progress report to the 30 July Committee our auditors EY highlighted the PPE valuations as a significant risk. This not only required extensive work on validating our Asset valuations but also resulted in EY adjusting their materiality and expanding their audit sampling. This has resulted in significant additional work for both auditors and officers.
- 2.2 As a result of EY's work so far on PPE our valuer has agreed to conduct extensive additional work on our methodology for arriving at valuations which will not be concluded until mid September. EY will then have to validate this work which could potentially take until October to conclude. Only then can we make the necessary adjustments to our accounts, including the Whole of Government Accounts (WGA), for EY to issue their audit opinion.
- 2.3 It is worth reminding Members that the changes to the Accounts from this work, although important, will have no material impact on our available reserves, spending plans or current projected shortfall in funding.
- 2.4 Officers are also responding to a number of non PPE audit queries predominantly resulting from the extra sampling required by our Auditors. Although these are less significant than the PPE work it is important these are resolved before the Auditors can issue their opinion. At the time of drafting this report this work is still ongoing as both parties are working extensively to close these issues down. An update will be provided at the meeting.
- 2.5 Part of the challenge both parties have faced was the availability of staff during August as it was expected that the work would have been concluded by the end of July.
- 2.6 Members will recall that the Auditors intend to issue an unqualified opinion on our Pension Fund Accounts at the conclusion of the main audit.
- 2.7 EY have, however, satisfactorily concluded their VFM work and their report is included in their Audit Progress Report attached at Appendix 1. In their review EY have concluded that LBM 'remains financially resilient over the medium term but financial challenges are continuing to grow.' Importantly, they also conclude that they do not expect to have any matters to include in the auditors report in respect of the VFM conclusion.
- 2.8 As a result of the additional audit work EY have notified us that an additional cost has been incurred by the Council on audit fees of £52,000 to date. This will increase as additional work is carried out on the PPE valuations.

3. Alternative options

None for the purposes of this report.

4. Consultation undertaken or proposed

- 4.1 Under the Accounts and Audit Regulations 2015, the Council is required to make available, for a 30 working day period, copies of the Statement of Accounts and related information for inspection by any interested person. During this period, interested persons also have the right to question the auditor, by prior appointment, about the accounts. The inspection period ran from 1st June to 12th July 2018 and was advertised on the Council's website at www.merton.gov.uk/finance.
- 4.2 There were no queries raised on the accounts during this time.

5. Financial Implications

- 5.1 The cost of the additional fees include the work reported to the 30 July Committee on information provided by a member of the public during the course of the audit. This cost of £9,000 will be charged to the new secondary school project.
- 5.2 The additional cost of £43,000 to date will be met from Environment and Regeneration and Corporate Services budgets and allowed for in the month 4 monitoring report at the 17 September 2018 Cabinet meeting.

6. Background Papers

- 6.1 The papers used to compile this report are held within the Corporate Services Department. Specifically, they include:-
- Statement of Accounts 2017/18
 - Working papers for the accounting entries
 - Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
 - CIPFA- technical bulletins

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A photograph of a meeting table with several white papers and documents. Three people's hands are visible, pointing at different parts of the documents. One person is wearing a yellow shirt and a watch. Another person is wearing a white shirt. A smartphone is lying on the table. The background is a bright, out-of-focus office environment.

London Borough of Merton Audit Progress Report

Year-ended 31 March 2018
28 August 2018

Dear Standards and General Purposes Committee Members

28 August 2018

Audit Progress Report

We are pleased to attach our report for the forthcoming meeting of the Committee. This report provides an update in relation to the audit of the London Borough of Merton (the Authority) for 2017/18 following our 25 July progress report.

As at the date of this report our audit remains in progress. Since the last Committee meeting we have worked closely with the Authority in addressing the issues we reported previously in relation to the valuation of the Authority's property, plant and equipment (PPE). The Authority has determined that it needs to commission an external valuer to provide it with the assurance it needs over the material accuracy of the valuation of its specialised assets. The work we engaged our own experts, EY Real Estates, is also still in progress. Whilst we have progressed some of the non-PPE aspects of the audit there remains work to complete. Progress has been slower than anticipated due largely to the challenges of undertaking the audit during a period when finance staff and auditors have had scheduled holiday.

We will provide a verbal update of the audit at the 6 September Committee meeting including an outline of the timeline we have determined to complete the audit and issue the auditor's report. We also include in this report our narrative reporting on our work to provide a value for money conclusion and an outline of the additional fees we have agreed to date with the Director of Corporate Services.

This report is intended solely for the use of the Standards and General Purposes Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

Yours faithfully

Suresh Patel

For and on behalf of Ernst & Young LLP

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Audit progress





Status of the audit

Update - As at the date of this report our audit remains in progress

PPE valuation.

In our July report we highlighted significant issues with the Authority's valuation of its PPE and our decision to engage our own valuation expert - EY Real Estates (EYRE). Following continued work in this area by the audit team and EYRE, the Authority has decided it will engage an external valuer to carry out some focused work on its approach to the valuation of its specialised assets (such as schools). The external valuer is scheduled to report back to the Authority later in September. In addition our work on the Authority's valuation of its non-specialist assets (such as other land and buildings) has identified some issues which we have now engaged EYRE to review.

As a consequence of the above, the PPE valuation matters remain unresolved and a work in progress and is unlikely to be resolved until the end of September subject to agreeing the reworked PPE disclosures and identifying any further PPE related matters.

Non-PPE audit procedures

These remain in progress and have progressed slower than anticipated due to the impact of the holiday commitments of the audit and finance teams. This has impacted on both the Authority's and the audit teams ability to complete the necessary work.

Completion

We will have continuing challenges in resourcing the audit from now on as team members have been scheduled to work on other audits as part of our resourcing plan for the late summer and autumn. We are working hard to ensure we have the appropriate resource to deliver the audit as quickly as possible. At this stage we do not anticipate completing the audit until October.

Value for money (VFM) conclusion

In our Audit Plan we reported a significant risk to the VFM conclusion in relation to the extent of savings the Authority has identified in its medium term financial strategy. We have completed the procedures we planned to undertake in response. We do not expect to have any matters to include in the auditor's report in respect of the VFM conclusion. We provide details of our work in the next section.

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as: *“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”.*

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the risk areas in our Audit Planning.

What was the significant value for money risk?	What arrangements did the risk affect?	What was our planned response?
<p>The Authority continues to have a challenging financial outlook. To balance the budget over the medium term it will need to deliver significant savings to not be dependent on its reserves. As at January 2018, the current draft of the Authority’s Business Plan for 2018 to 2022 shows a cumulative budget gap including the use of reserves of £37.7 million. As at the end of November 2017, there was a forecast shortfall of £2.6 million or 31% in delivery of the Authority’s current year savings target.</p>	<ul style="list-style-type: none"> • Taking informed decisions • Deploying resources in a sustainable manner 	<p>Our approach will focus on reviewing the robustness of the Authority’s plans and arrangements to address budget pressures in Community and Housing, which includes adult social care, and Children, Schools and Families, and to achieve its savings targets and address budget gaps to deliver sustainable financial balance over the medium term. This will include follow-up of the issues we highlighted as part of our 2016-17 programme of VFM work. We will also consider the causes of the shortfall against current savings programme targets and any related impact on the Authority’s future financial plans.</p>

In our planning work we also considered the weaknesses identified by the Authority in contract standing orders and related processes, notably in respect of the maintenance of a comprehensive contract register, and compliance with its own contract procedure rules. Although we did not consider the risk to be significant we have considered how the Authority has developed its arrangements during the year to address the weaknesses identified. We have also followed up the recommendations we made in the previous year’s VFM reporting.

We report our findings on our VFM conclusion work on the next few pages.



What are our findings?

2017/18 financial position and performance

At the end of the financial year the overall underspend was £266,000 compared to a £5.4 million overspend or 1 per cent of the gross budget in 2016/17, and a 2017/18 forecast overspend of approximately £600,000 as at month 9. Despite the small surplus delivered services have continued to overspend, with total service overspending in the year of £1.15 million. Service overspending has again primarily been incurred in the more volatile demand led areas of Children, Families and Schools and Community and Housing, although the main area of overspending has shifted from adult social care to children's and in particular social care and youth inclusion budgets. The level of service level of overspending has reduced significantly from 2016/17 (£10.1 million) and is at its lowest level for four years, but the overall underspend was only achieved through service expenditure growth built into to the 2017/18 budget and continued underspending on corporate services budgets and corporate provisions.

The level of usable reserves has decreased in the period. Although the overall General Fund balance has remained unchanged at approximately £12.8 million, usable earmarked revenue reserves (excluding balances held by schools) have decreased by approximately £1 million or 2.4% of total usable earmarked reserves of £41m. There has also been a decrease of £4.2 million in usable reserves available to support capital spending as planned.

Total Capital Expenditure for 2017/18 was £32.2 million compared to an original capital programme budget of £39.5 million. Significant changes were made to the capital programme and budget across the year and, in common with previous years, the forecast of capital outturn made at the end of month 9 (£39.4 million) was significantly over-stated. The relatively high level of slippage in delivery of the programme is also consistent with prior years.

Prior year overspending in Community and Housing related to adult social care, and primarily the access and enablement budget. This has been largely addressed in 2017/18 although there remains some residual overspending at a level of 1 per cent of the budget in this area. The Authority reports that there has been a noticeable reduction in committed expenditure on placements in the latter part of the financial year which is due to the introduction of an outcomes forum, weekly monitoring of variations and increased scrutiny of care packages. It should be noted, however, that Adult Social Care received £9.3 million budget growth in 2017/18 to support identifiable pressures in the placements budget. The changes in arrangements and work practices made in the period have therefore stabilised spending in 2017/18 at broadly 2016/17 levels rather than generating savings. It is essential that this level of control against the budget is maintained as continued budget growth at this level cannot be maintained and is not planned for in the medium term financial strategy (MTFS).

The main driver of overall service level overspending in 2017/18 was overspending in Children Schools and Families. The main area of overspending within the service is social care and youth inclusion costs, although there was also significant overspending against the Special Education Needs (SEN) transport cost budget. The Authority also notes that the service identified underspends to offset cost pressures that are not sustainable on an on-going basis or one-off windfalls which are not guaranteed to reoccur in future years. This means that the demographic and new burdens cost pressures will continue into the new financial year with budgetary pressures being primarily driven by the complexity rather than the volume of cases. Both placement and SEN transport budgets are considered by the Authority to be particularly volatile areas and due to the increasing volume of children's social care activity and Education Health and Care Plan (EHCP) requests the service is concentrating on demand management balancing its education and social care statutory duties with careful and considered oversight of spend.



What are our findings?

Future Financial Planning and the MTFS

The current iteration of the MTFS was presented to Authority in February 2018 as part of the 2018/22 Business Plan. The MTFS forecasts a cumulative budget gap of £17.4 million by 2021/22 after considering the impact of 2018/19 savings and income proposals and transfers from departmental and the Balancing the Budget reserves.

We have considered the reasonableness of pay and price increases built into the MTFS projections. Uplifts for pay inflation are based on the two-year pay increase offered to all council employees from 1 April 2018. The majority of employees will receive an uplift of 2 per cent on 1 April 2018 and a further 2 per cent on 1 April 2019, with those on lower salaries receiving higher increases. The offer also includes the introduction of a new national pay spine on 1 April 2019. In determining uplifts for price inflation the Authority has considered Consumer Price Index (CPI), Retail Price Index (RPI) and bank base rate forecasts over its MTFS planning horizon. Although lower than both CPI and RPI the Authority's estimate of price inflation is higher than the forecast base rate changes. The price inflation assumptions incorporated into the MTFS are cash limited but at a corporate level an 'excess inflation provision' is incorporated into the MTFS. This is intended to assist services that experience price increases greatly in excess of the provision built into the budget. Based on our review we are satisfied that price and pay inflation assumptions built into the MTFS are reasonable. The MTFS also considers:

Income - there is no assumption around inflation of income from fees and charges built into the MTFS. This is considered to be a prudent approach noting that service departments can treat forecast increases income as part of savings schemes.

Forecast Collection Fund surplus / deficits and the impact of a move to a London Pilot business rate pool from 2018/19.

A general contingency for unforeseen cost and demand pressures (£1.5 million).

- ▶ Bad debt provision, with no allowance for any increase being made over the period covered by the MTFS.
- ▶ Revenuisation - this is the cost of expenditure originally included in the capital programme that could not be justified as capital expenditure.
- ▶ Employer pension contributions.
- ▶ The cost of local elections.
- ▶ Other corporate and technical adjustments.

We have considered savings proposals over and above those already delivered in prior years and incorporated into the MTFS forecast. The scale of the challenge the Authority faces to identify and deliver the savings necessary to balance the budget continues to grow. For the three years 2019/20 to 2021/22 a cumulative total of approximately £3.7 million of savings have been proposed by directorates. To balance the budget without calling on reserves to a greater extent than planned directorates still need to identify and deliver a further £18.4 million of savings by 2021/22. To gain assurance on the robustness of projected savings proposals already built into the 2018/19 budget we selected one agreed proposal from each of the Children, Schools and Families and Community and Housing directorates, and asked to see support for the estimated saving built into the budget and details on progress made on delivery of the saving to date in 2018/19. The savings proposal for Children's, Families and Schools is reported as being fully delivered in the current year giving reasonable assurance the saving proposal was valid and supportable. The Community and Housing saving proposal, which related to Adult Social Care, was not considered to be achievable as a result of changes in circumstances outside of the Authority's control. As a result it was withdrawn and replaced by alternative savings proposal which are currently being reported as partially delivered in the current year. This provides some assurance that planned savings are actively reviewed and replacement schemes identified where original schemes are no longer considered viable.



What are our findings?

Future Financial Planning and the MTFS (continued)

We note that significant growth was built into the adult social care budget for 2017/18 in response to demand pressures and overspending in the prior period noted as part of our work on the 2016/17 VFM conclusion. Given the level of assumed growth is reduced significantly across all services from 2018/19 it is essential that planned recurrent savings are realised for the Authority to be financially sustainable.

Overall we have concluded that the MTFS is comprehensive and the reporting of it, and detailed assumptions underpinning it, are clear. The assumptions built into the MTFS are reasonable based on external evidence, comprehensive and not unrealistically optimistic, and there is some support available for savings plans and associated actions. The Authority remains financially resilient over the medium term but financial challenges are continuing to grow. Although reduced in 2017/18 the current level of service overspending is not sustainable. Reserves still offer the Authority some flexibility but it is increasingly important that service level savings are identified and delivered as planned.

Weaknesses in contract standing orders and related processes

As part of our planning assessment we consider Internal Audit work undertaken in the period. At the planning stage we reported that Internal Audit had identified some instances of non-compliance with procurement rules and contract standing orders together with some instances of non-compliance with contract register processes based on its work undertaken at that point in time. Although we did not consider these to be significant risks we identified them as relevant to our value for money conclusion responsibilities and undertook to follow-up progress at the execution phase of the audit drawing on planned 2017/18 Internal Audit reviews of corporate procurement and contract monitoring of commissioned services which had not been delivered at the planning stage.

We have liaised with the Head of Internal Audit who has confirmed that both the corporate procurement and contract monitoring of commissioned services reviews were deferred to 2018/19, with the corporate procurement review currently being undertaken as at July 2018. Based on a discussion with Internal Audit progress made during the year and subsequent to year-end in addressing the previously identified weaknesses in arrangements has been mixed. Some improvements have been identified in the current audit review of procurement in relation to contract standing order updates, the issue of guidance for staff on the intranet, overall strategy and the development and function of Operational Procurement Groups. We are pleased to note these issues have been addressed and are included in the revised Contract Standing Orders issued November 2017. We have concluded that the residual weaknesses are not indicative of an absence of adequate arrangements, but that this is an area where continued focus is needed to improve arrangements.



Follow up of prior year VFM recommendation

As part of our 2016/17 VFM conclusion work at the Authority we raised the following recommendations for improvement in our Audit Results Report. We recommended that the Authority should:

- ▶ Consider areas of adult social care related activity where it could further benefit from working in collaboration with its main CCG and other parties to the Sustainability and Transformation Plan, for example, joint procurement or commissioning.
- ▶ Ensure that teams are sufficiently supported and encouraged to make effective use of the new IT systems (Mosaic and the E5 general ledger) for producing timely and accurate financial and operational information.

Good progress has been made against the first recommendation. The significant prior year overspend on the access and assessment budget has been largely addressed although there remains some residual overspending. This offers some assurance that work started in 2016/17 and considered as part of our 2016/17 value for money conclusion work has had a positive impact on controlling the sharp increase in demand and unit cost experienced in 2016/17. Some of the arrangements we considered in 2016/17, such as holding weekly budget management meetings and the implementation of a management action plan, have operated throughout 2017/18 and appear to have had a positive impact. Throughout 2017/18 the Authority also reported on the Better Care Fund agreement with Merton CCG and its potential liability of a £474,000 risk share contribution, in addition to a £275,000 pressure from the previous year. At the end of the year there has been a reduction in the expected risk share allocation to £150,000, which the Authority attributes to continued effective working relationships between the Community and Housing management team and the CCG. It should be noted, however, Adult Social Care received £9.3 million growth in 2017/18 to support identifiable pressures in the placements budget. The changes in arrangements and work practices made in the period have therefore stabilised spending in 2017/18 at broadly 2016/17 levels rather than generating savings.

Progress made against the second prior year recommendation has been less strong. An Internal Audit review undertaken in the year of the Authority's CM2000 system received limited assurance. CM2000 is the Authority's electronic care monitoring system, which enables the logging and analysing of home care visits by care providers contracted to use the system. The CM2000 system interfaces with Mosaic, the Authority's main social care system, which in turn interfaces with the E5 general ledger. This process should enable payments to be made to providers automatically and subsequent billing of client invoices to be correct. However, due to problems with system implementation this was not always possible. Although several staff currently have access to CM2000, user-friendly monitoring reports are not readily available and there is a heavy reliance on the CM2000 Contract Monitoring officer to supply information required from the system. It was also not possible for the Authority to undertake a complete reconciliation of Mosaic to the E5 general ledger throughout the 2017/18 year with a final reconciliation not being completed until April. The Authority's own 2017/18 Annual Governance Statement continues to disclose a governance issue around the need to fully review controls in light of the new E5 financial management system, with the ability to reconcile Mosaic income and expenditure to E5 is a key part of this.

£ Fees

Update on fees

At the July Committee meeting we stated that as a result of the significant issues arising in the audit, including the need to respond to a member of the public, we would be seeking to agree additional fees with the Director of Corporate Services. To date we have outlined the fees included in the table. In estimating the proposed additional fees for the additional work we have made allowances for the additional time we have spent on the audit arising from our own resourcing challenges. We will seek to agree final fees with the Director of Corporate Services on completion of all the audit work. These fees are subject to approval by Public Sector Audit Appointments Ltd.

* These fees are as at the end of August so any further work will increase the proposed final fees.

Tbc fees will be finalised on completion of the relevant work.

	Proposed final fee 2017/18	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
		£	£	£
Total Fee - Code work	143,498	143,498	143,498	143,498
Additional code work:			-	12,000
- MRP revision	4,500	4,500	-	-
- Responding to a member of the public	9,000	-	-	-
- Engagement of EY Real Estates	13,000*	-	-	-
- Additional work arising from change in materiality and clearance of audit queries	30,000*	-	-	-
Total audit	199,998	147,598	143,498	155,498
Non-audit services - Housing Benefits claim certification	Tbc	41,242	41,242	30,555
Non-audit services - Teachers' Pensions limited assurance	Tbc	8,500	N/A	8,500
Total other non-audit services	Tbc	49,742	41,242	39,055
Total fees	Tbc	197,240	184,740	194,553

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ED None

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OFFICIAL

Committee: Standards & General Purposes Committee

Date: 6 September 2018

Wards: All

Subject: Regulation of Investigatory Powers Act Authorisations

Lead officer: Paul Evans, Assistant Director of Corporate Governance

Lead member: Councillor Mark Allison

Contact officer: paul.evans@merton.gov.uk

Recommendations:

-
1. That members note the purposes for which investigations have been authorised under the Regulation of Investigatory Powers Act (RIPA) 2000.
-

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. To inform members about investigations authorised since March 2018 under RIPA.

2 DETAILS

- 2.1. The council has a number of statutory functions that involve officers investigating the conduct of others with a view to bringing legal action against them. These functions include investigating anti-social behaviour, fly tipping, noise nuisance control, planning (contraventions), benefit fraud, contraventions of trading standards, licensing and food safety legislation.
- 2.2. Whilst the majority of investigations are carried out openly, some investigations must be carried out using covert surveillance techniques or involve the acquisition of communications data. Communications data is information about the times of calls or internet use and the location and identity of the callers, but not the content of the calls or details of the websites viewed.
- 2.3. RIPA regulates the authorisation and monitoring of these investigations to safeguard the public from unwarranted intrusion of privacy.
- 2.4. With effect from 1 November 2012, the Protection of Freedoms Act 2012 requires local authorities to obtain the approval of a magistrate for the use of covert surveillance.
- 2.5. In line with the revised Code of Practice, reports detailing the use of RIPA are submitted to Standards and General Purposes Committee on a regular basis.
- 2.6. Since March 2018, only one request for directed surveillance has been made and authorised by the Magistrates Court, which was in relation to flytipping. This resulted in one official warning being issued; seven fixed penalty notices of £400 being issued; seven cases pending legal action; and four cases pending further enforcement action.

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2.7. Since March 2018, there have been no requests for CCTV footage for RIPA investigations.

2.8. Since March 2018, no applications have been made for the acquisition of communications data.

3 ALTERNATIVE OPTIONS

3.1. The report is for information only.

4 CONSULTATION UNDERTAKEN OR PROPOSED

4.1. No consultation has been undertaken regarding this report.

5 TIMETABLE

5.1. Next report is due in March 2019.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

6.1. None.

7 LEGAL AND STATUTORY IMPLICATIONS

7.1. All investigation using covert surveillance techniques or involving the acquisition of communications data is in line with the Regulation of Investigatory Powers Act 2000.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

8.1. RIPA was introduced to regulate existing surveillance and investigations in order that they meet the requirements of Article 8 of the Human Rights Act. Article 8 states:

1) Everyone has the right for his private and family life, his home and his correspondence.

8.2. (2) There shall be no interference by a public authority with the exercise of this right except such as is in accordance with the law and is necessary in a democratic society in the interests of national security, public safety or the economic well-being of the country, for the prevention of disorder or crime, for the protection of health or morals, or for the protection of the rights and freedoms of others.

9 CRIME AND DISORDER IMPLICATIONS

9.1. RIPA investigations are authorised for the prevention or detection of crime or the prevention of disorder.

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

10.1. None.

11 APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT

- None

12 BACKGROUND PAPERS

12.1. None

Committee: Standards and General Purposes Committee

Date: Wards: All

Subject: Report on the use of temporary workers and consultants

Lead officer: Kim Brown, HR Lead

Lead member: Cllr Mark Allison

Contact officer: Kim Brown Ext 3152

Recommendations:

To note progress made to monitor and control the use of temporary workers and consultants

Purpose of report and executive summary

1.1. The Committee has received regular progress reports in relation to the number of interim appointments in the council and the mechanisms in place to monitor the use of such workers.

2. Details

2.1 The central monitoring database consists of all types of interim/temporary placement (over £30 pounds per hour).

2.2 The database is updated on a monthly basis and double-checked with departmental management teams (DMTs) for accuracy, with quarterly reports as at the end of June, September, December and March being reported to this committee.

2.3 The committee on 30th July 2018 requested additional information for interims/temporary worker placements (as defined in para 2.1):

- the costs and numbers over a three year period
- the number of temporary workers who have converted to permanent roles with the Council also know as 'temp to perm'.

2.4 The engaging of most interim workers is via Comensura or the LGRP, which is a London wide contract for interim appointments. There have been instances due to market supply issues, although very few, when the Council has not used either of these contracts and has had to go 'off contract'. There are robust processes in place to manage this process, which requires a business case and financial checks to ensure there is a budget to pay for the assignment, as well as sign off by the Director of Corporate Services.

- 2.5 The previously reported situation continues with by far the largest group of temporary workers being “on contract” agency and temporary staff appointed through the Council’s corporate contract with Comensura for the supply of agency staff. Whilst there is an increase in the costs of interims via Comensura this represents a reduction in appointments, which are off contract or through LGRP. Interims are engaged with the involvement and oversight of the HR function by way of a database that supplies monthly spend and usage reports to Council managers, DMTs and the Corporate Management Team.
- 2.6 The Council has different delivery models to ensure services are able to realise efficiencies, become more resilient and effective by sharing services with other London Boroughs. In October 2016, the Legal shared services expanded to include Wandsworth and a year later Regulatory Services followed. As a result of the expansions a number of interims with pay rates over £30 per an hour transferred to Merton – the costs of these appointments are shared across the service and rechargeable to partner boroughs.
- 2.7 The Council introduced a temp to perm procedure to reduce the reliance on agency workers and allowed conversions from agency to permanent staff when certain conditions were met. Thirty -four (34) agency workers have converted to permanent employment from September 2017 to 30th June 2018 of this number, 11 were paid £30 pounds or more. Some of the conversions to permanent roles were lawyers, Project Managers and Social workers. Temp to perm conversion rates will be reported to this Committee on a quarterly basis.
- 2.8 Within the services career pathways are being developed through the creation of apprenticeships schemes (where standards are available) and ensuring that that the apprenticeship levy is used to meet the development element.
- 2.9 The total spend for interim and temporary workers from 2015 to date are listed below: interims via Comensura Graph 1 and Table 1, LGRP and off contract Graph 2 and Table 2

Graph 1 – List totals for 15/16, 16/17, 17/18 and year to date for interim and temporary workers – Comensura

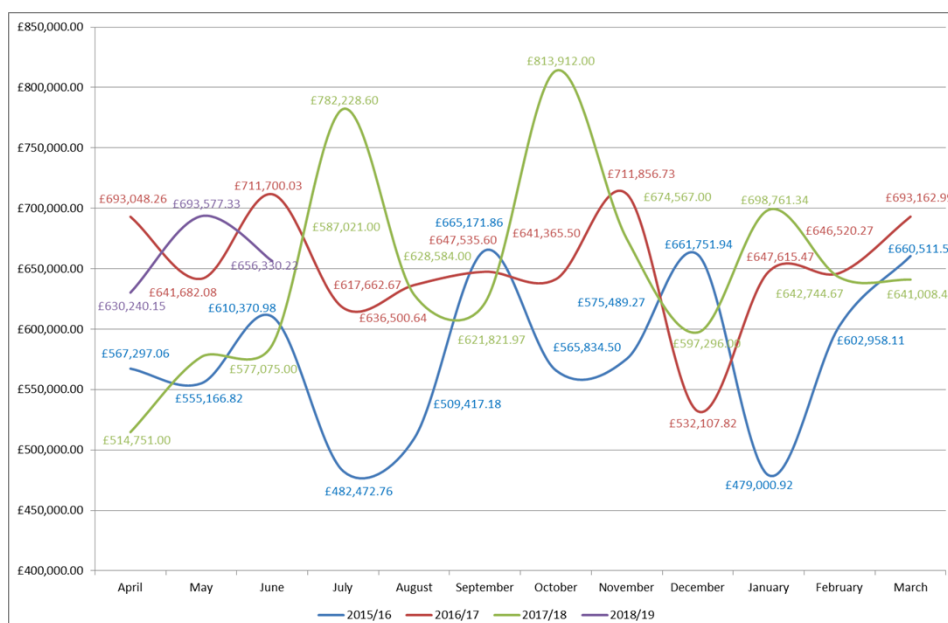


Table 1 - List totals for 15/16, 16/17, 17/18 and year to date for Interim and temporary workers – Comensura

	2015/16	2016/17	2017/18	2018/19
April	£567,297.06	£693,048.26	£514,751.00	£630,240.15
May	£555,166.82	£641,682.08	£577,075.00	£693,577.33
June	£610,370.98	£711,700.03	£587,021.00	£656,330.22
July	£482,472.76	£617,662.67	£782,228.60	
August	£509,417.18	£636,500.64	£628,584.00	
September	£665,171.86	£647,535.60	£621,821.97	
October	£565,834.50	£641,365.50	£813,912.00	
November	£575,489.27	£711,856.73	£674,567.00	
December	£661,751.94	£532,107.82	£597,296.00	
January	£479,000.92	£647,615.47	£698,761.34	
February	£602,958.11	£646,520.27	£642,744.67	
March	£660,511.51	£693,162.99	£641,008.45	

Graph 2 - Total of LGRP and Off Contract assignments over £30 for each financial year

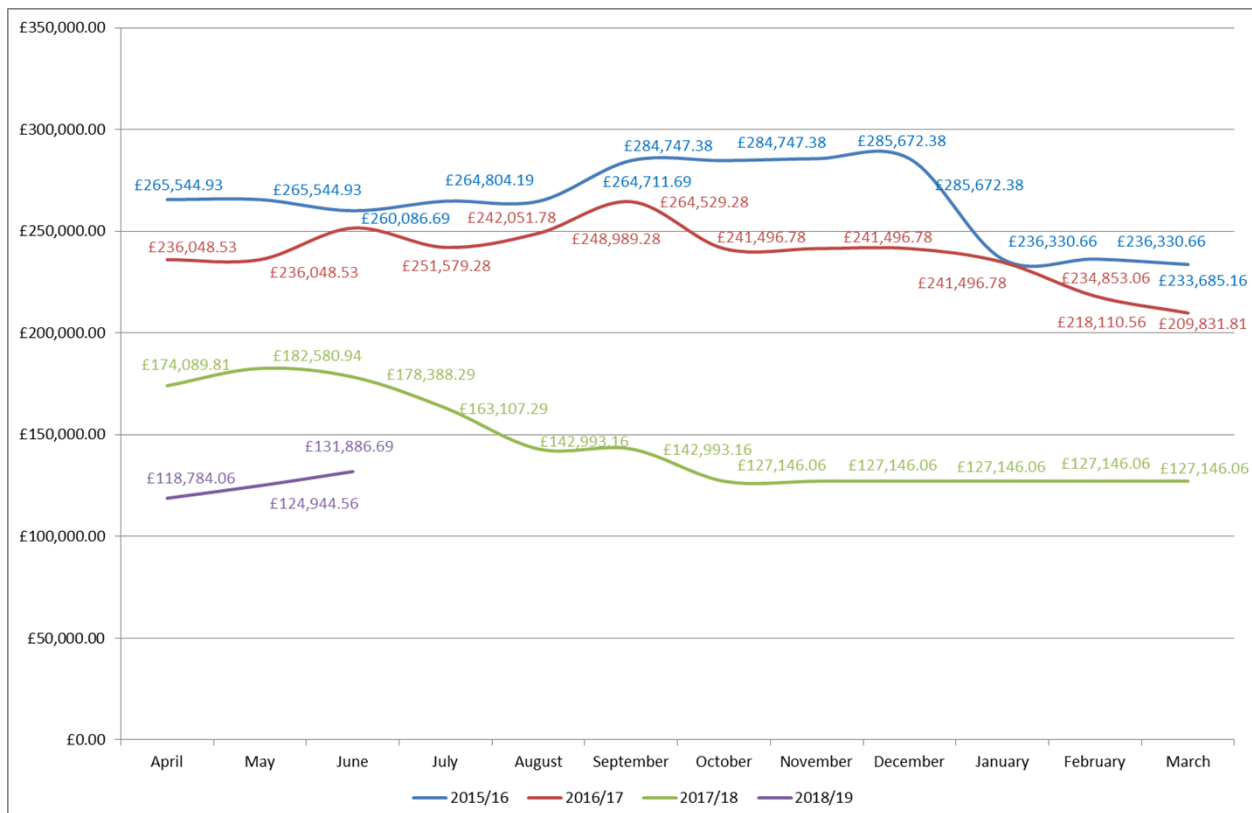


Table 2 - Total of LGRP and Off Contract assignments over £30 for each financial year

2015/16				2016/17			
	LGRP	Off Contract	Total		LGRP	Off Contract	Total
Apr-15	£100,325.50	£165,219.43	£265,544.93	Apr-16	£60,027.88	£176,020.66	£236,048.53
May-15	£100,325.50	£165,219.43	£265,544.93	May-16	£60,027.88	£176,020.66	£236,048.53
Jun-15	£100,325.50	£159,761.19	£260,086.69	Jun-16	£82,551.63	£169,027.66	£251,579.28
Jul-15	£107,633.00	£157,171.19	£264,804.19	Jul-16	£82,551.63	£159,500.16	£242,051.78
Aug-15	£107,540.50	£157,171.19	£264,711.69	Aug-16	£93,559.13	£155,430.16	£248,989.28
Sep-15	£115,902.50	£168,844.88	£284,747.38	Sep-16	£81,349.13	£183,180.16	£264,529.28
Oct-15	£115,902.50	£168,844.88	£284,747.38	Oct-16	£70,526.63	£170,970.16	£241,496.78
Nov-15	£115,902.50	£169,769.88	£285,672.38	Nov-16	£70,526.63	£170,970.16	£241,496.78
Dec-15	£115,902.50	£169,769.88	£285,672.38	Dec-16	£70,526.63	£170,970.16	£241,496.78
Jan-16	£92,259.50	£144,071.16	£236,330.66	Jan-17	£70,526.63	£164,326.44	£234,853.06
Feb-16	£92,259.50	£144,071.16	£236,330.66	Feb-17	£70,526.63	£147,583.94	£218,110.56
Mar-16	£75,369.00	£158,316.16	£233,685.16	Mar-17	£70,526.63	£139,305.19	£209,831.81

2017/18				2018/19			
	LGRP	Off Contract	Total		LGRP	Off Contract	Total
Apr-17	£60,869.63	£113,220.19	£174,089.81	Apr-18	£33,961.38	£84,822.69	£118,784.06
May-17	£80,368.26	£102,212.69	£182,580.94	May-18	£49,371.88	£75,572.69	£124,944.56
Jun-17	£83,205.60	£95,182.69	£178,388.29	Jun-18	£56,314.00	£75,572.69	£131,886.69
Jul-17	£67,924.60	£95,182.69	£163,107.29	Jul-18			
Aug-17	£58,170.48	£84,822.69	£142,993.16	Aug-18			
Sep-17	£58,170.48	£84,822.69	£142,993.16	Sep-18			
Oct-17	£42,323.38	£84,822.69	£127,146.06	Oct-18			
Nov-17	£42,323.38	£84,822.69	£127,146.06	Nov-18			
Dec-17	£42,323.38	£84,822.69	£127,146.06	Dec-18			
Jan-18	£42,323.38	£84,822.69	£127,146.06	Jan-19			
Feb-18	£42,323.38	£84,822.69	£127,146.06	Feb-19			
Mar-18	£42,323.38	£84,822.69	£127,146.06	Mar-19			

2.10 Year on year since 2015/16 there has been a reduction in the number of staff paid £30 per hour and above (Graph 3/Table 3). There are a number of factors such as the scrutiny of interim appointments by senior officers and elected members (DMTs, CMT and this committee); associated checks/authorisation levels in the recruitment process as well as the reasons already detailed in paras 2.4, 2.5 and 2.7.

Graph 3 - Total no. of interim workers over £30 in each financial year

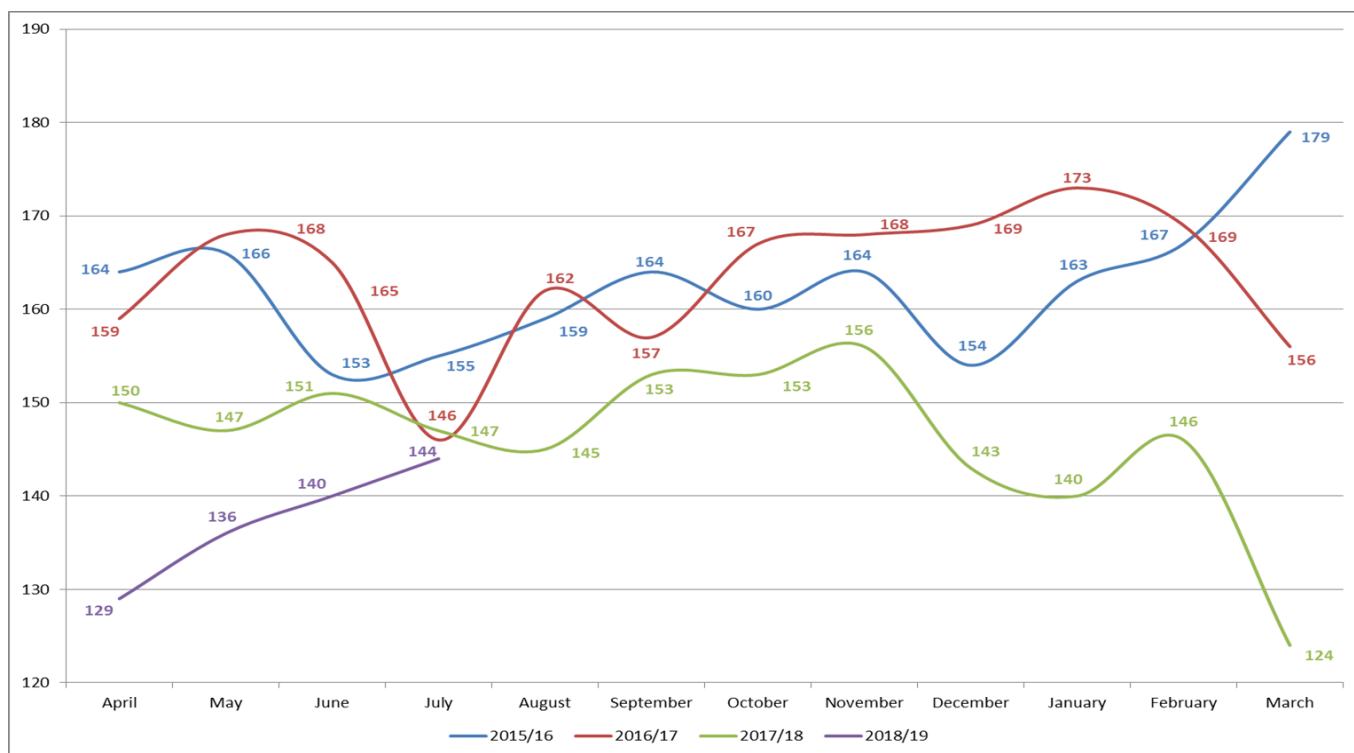


Table 3 - Total no. of interim workers over £30 in each financial year

Month	No. of workers over £30/hr			
	Comensura	LGRP	Off Contract	Total
Apr-15	122	10	32	164
May-15	123	10	33	166
Jun-15	110	10	33	153
Jul-15	111	10	34	155
Aug-15	115	12	32	159
Sep-15	118	12	34	164
Oct-15	114	12	34	160
Nov-15	117	12	35	164
Dec-15	107	12	35	154
Jan-16	123	10	30	163
Feb-16	128	9	30	167
Mar-16	141	7	31	179

Month	No. of workers over £30/hr			
	Comensura	LGRP	Off Contract	Total
Apr-16	125	8	26	159
May-16	134	8	26	168
Jun-16	129	8	28	165
Jul-16	108	8	30	146
Aug-16	124	9	29	162
Sep-16	119	9	29	157
Oct-16	131	7	29	167
Nov-16	132	7	29	168
Dec-16	133	7	29	169
Jan-17	138	7	28	173
Feb-17	135	7	27	169
Mar-17	128	7	21	156

Month	No. of workers over £30/hr			
	Comensura	LGRP	Off Contract	Total
Apr-17	124	8	18	150
May-17	123	8	16	147
Jun-17	128	7	16	151
Jul-17	126	5	16	147
Aug-17	124	5	16	145
Sep-17	131	6	16	153
Oct-17	132	5	16	153
Nov-17	135	5	16	156
Dec-17	122	5	16	143
Jan-18	120	4	16	140
Feb-18	127	4	15	146
Mar-18	105	4	15	124

Month	No. of workers over £30/hr			
	Comensura	LGRP	Off Contract	Total
Apr-18	112	2	15	129
May-18	119	3	14	136
Jun-18	122	4	14	140
Jul-18	129	5	10	144

- 2.11 There has been a reduction in the use of off contract appointments due to monitoring and the introduction of IR 35 tax legislation in April 2017. IR35 is tax legislation designed to combat tax avoidance by workers supplying their services to clients via an intermediary, such as a limited company, but who would be an employee if the intermediary was not used.
- 2.12 The purpose of IR35 is to prevent contractors, consultants and freelancers from trading via their own limited company in order to pay less tax and national insurance contributions (NIC) than if they were employed directly by their end client or agency. This has only been rolled out to the Public sector; the rollout to the Private sector has been delayed.
- 2.13 HR monitors suppliers and contractors to ensure they are IR35 compliant.

3 Timetable

- 3.1 Regular monthly reports of all interim/temporary placements are sent to departments and suitable “challenge” meetings are held with DMTs on a monthly basis. Agency spend and number of agency staff forming part of the workforce are reported to CMT on a monthly basis as part of the HR Metrics.
- 3.2 Quarterly updates will be provided to this committee. September information (Quarter 2) will be reported to 8th November meeting.

4 Financial, resource and property implications

- 4.1 The aim is to challenge hiring managers’ interim/temporary placements and reduce overall costs associated with interim workers where possible, noting that in many cases the Council has to cover statutory functions.

5 Legal and statutory implications

- 5.1 There are no specific legal implications arising from the report

6 Human rights, equalities and community cohesion implications

- 6.1 The amendments that have been made to the Council’s HR policies and processes will improve confidence in the Council’s HR recruitment procedure and the maintenance of the interim position database to provide the means to ensure compliance with Members’ requirements.

7 Crime and Disorder implications

- 7.1 None

8 Risk management and health and safety implications

8.1 These are detailed in the Ernst and Young report of 12 March 2014 and subsequent reports.

9 Appendices – the following documents are to be published with this report and form part of the report

9.1 None

10 Background papers

10.1 None

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Standards and General Purposes Committee Forward work plan 2018/19

8 November 2018

- External Audit Annual Letter
- Internal Audit progress report on annual audit plan
- Annual Gifts and Hospitality report (members)
- Annual Gifts and Hospitality report (officers)
- Annual Complaints report
- Risk management
- Complaints against Members
- Temporary and Contract Staff update
- Work programme

14 March 2019

- External Audit Certification of Claims report
- External Audit progress report
- External Audit Plans for Council and Pension Fund accounts
- Internal Audit Plan
- Internal Audit progress report
- Update on RIPA authorisations
- Complaints against Members
- Temporary and Contract Staff update
- Work programme

Add as required:

- Polling Places
- Constitutional amendments
- Review of members' interests
- Independent / co-opted members
- Reports on dispensations issued by Monitoring Officer
- Report on payment exceeding £1000 as a result of maladministration as directed by the LGO.

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