

Merton Council

Overview and Scrutiny Commission - financial monitoring task group

Task group members

Councillors:

Stephen Crowe (Chair)
Nigel Benbow
Paul Kohler
Aidan Mundy
Owen Pritchard
Eleanor Stringer
Peter Southgate
David Williams

Thursday 4 April 2019 at 7.15 pm
Committee rooms D & E - Merton Civic Centre, London Road,
Morden SM4 5DX

Agenda

- 1 Apologies for absence
- 2 Declarations of pecuniary interest
- 3 Minutes of last meeting - 25 February 2019 1 - 6
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- 7 Merantun - progress update and deepdive on the financial monitoring
Presentation from James McGinlay, Head of Regeneration
- 8 Dates and agenda items for future meetings
Please bring your diaries

Contact for further information about the task group meeting:
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Agenda Item 3

All minutes are draft until agreed at the next meeting of the committee/panel. To find out the date of the next meeting please check the calendar of events at your local library or online at www.merton.gov.uk/committee.

OVERVIEW AND SCRUTINY COMMISSION - FINANCIAL MONITORING TASK GROUP

25 FEBRUARY 2019

(7.15 pm - 9.15 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: Councillor Mike Brunt, Cabinet Member for the Environment and Street Cleanliness
Councillor Nick Draper, Cabinet Member for Community and Culture

Caroline Holland (Director of Corporate Services), Chris Lee (Director of Environment and Regeneration), Roger Kershaw (Assistant Director of Resources), Anita Cacchioli, Annie Baker (SLWP Strategic Partnership Manager), Charles Baker (Waste Strategy and Commissioning Manager), Doug Napier (Leisure and Culture Greenspaces Manager) 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 - 13 NOVEMBER 2018 (Agenda Item 3)

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

Matters arising:

- Page 1 – an update on learning from Lean reviews has been added to the agenda for the meeting on 4 April
- Page 1 – Councillor Paul Kohler would like a copy of the new business plan
ACTION: Director of Corporate Service to send once published in March
- Page 4 - trend data on vacancy information has been included in the report on agenda item 4

Councillor Owen Pritchard reported back from the meeting that he and Councillor Stephen Crowe had with Rachael Wardell, Director of Children Schools and families, to discuss the identification and recording of financial risk. Councillor Pritchard said

that there were two approaches to this – enterprise risk management and hypothecated risk management – and that Rachael had worked with both and that each had benefits and drawbacks. He said that when there was a lack of hypothecated risk management this increased the potential for a lack of understanding of the risks being taken as part of the budget setting process and therefore could lead to a lack of mitigating action.

4 FINANCIAL MONITORING REPORT, QUARTER 3, 2018/19 (Agenda Item 4)

The report was introduced by Caroline Holland, Director of Corporate Services. She said that during period 9 the revenue budget had moved from a forecast overspend of £0.2m at year end to a forecast underspend of £1.49m, with improvements in the forecast outturn position for all departments except Community and Housing. She drew the task group's attention to the updated information on the capital programme, progress on savings, debt monitoring and vacancy data.

Caroline Holland, Roger Kershaw (Assistant Director of Resources) and David Keppler (Head of Revenues and Benefits), provided additional information on specific sections in response to questions:

Overview

- The forecast underspend in Environment and Regeneration is unlikely to fully persist into 2019/20. Whether the forecast underspend in Community and Housing persists into 2019/20 will depend on the extent to which the budget is affected by winter pressures.

Corporate Services

- The bailiff service income is forecast to be about £1.5m for Merton and £0.5m for Sutton.
- Contract management is provided by individual contract managers. The procurement board provides strategic overview. The Veolia contract is managed with the Environment and Regeneration Department.

Environment and Regeneration

- It is hoped that the reduction in total waste tonnage will continue but, as it may be linked to the downturn in the economy, it may increase again. The service is working hard to increase recycling rates.

Children Schools and Families

- SEN transport (page 13) is a difficult area to forecast. A review of transport for children and adults is underway.
- The forecast deficit for the Dedicated Schools Grant will not be reflected in the General Fund balance. The council is in discussion with the external auditors regarding the appropriate accounting treatment of the deficit.
- Independent Day School provision (page 17) is for children on EHCPs who are placed out of borough. It is hoped that better rates may be negotiated for new placements.

Community and Housing

- The council will fund temporary accommodation where it has responsibility for doing so. Where the client is in receipt of housing benefit, the council will be able to recoup up to 50% of the temporary accommodation cost.

Debt update

- Car parking debts comprise a combination of one-off debtors, persistent offenders and those with 2-3 unpaid tickets. Once the debt is passed to the bailiffs, they work hard to track down the car owner, one third of which are registered outside the borough.
- The task group AGREED that it would like some information on the potential for raising income from selling debts to be included in the update report to the next meeting. ACTION: Head of Revenues and Benefits

In their discussion of the establishment control and vacancy reporting data, task group members commented that, without information on the level of turnover, it was difficult to interpret changes in the unfilled vacancies and agency workers from month to month. Caroline Holland said that turnover is currently below the council's target of 12% and offered to include the number of posts recruited to in the overall data table (Annex A). ACTION: Head of HR

5 VEOLIA AND IDVERDE - DEEP DIVE INTO FINANCIAL ASPECTS OF THE CONTRACTS (Agenda Item 5)

Chris Lee, Director of Environment and Regeneration, introduced the public and exempt reports. He said that the commercially sensitive information on deductions from the contractors had not been finalised and were therefore subject to change. Some deductions have been calculated ready to be applied and these are now mainly calculated and applied automatically through integrated software between the council and the contractor. Chris Lee added that financial incentives and deductions are part but not the whole of the contractual relationship, that it is importance to get the balance of these right to incentivise performance and financial benefits and that this is subject to an annual review.

In response to a question about the publication of monthly performance information, Chris Lee said that an agreed set of indicators would be agreed across the partnership authorities and these would be published on the South London Waste Partnership (SLWP) website, with links from borough websites. Annie Baker, SLWP Strategic Partnership Manager, explained that Sutton Council had been able to consider publication of some performance information already because entrance in to the new contract service had started earlier.

The task group shared their experiences of using the IT system to report service failures and the difficulties they had experienced in re-reporting a missed collection that hadn't been resolved and a general lack of feedback on what has happened as a result of the report. Annie Baker explained that once a service failure has been reported it remains open until resolved and can not be re-reported until it has been closed on the IT system. This leads to a 'Refresh' of the deduction, where applicable, for each period that it remains unresolved on the system

Chris Lee emphasised that he was not happy with Veolia's performance at the moment and that, although there have been improvements, this has still not reached an acceptable level. He said that the council has taken on some temporary staff to assist with performance monitoring and handling of complaints. Councillor Mike

Brunt, Cabinet Member for the Environment and Street Cleanliness, assured the task group that he would continue to do all he can to bring influence to bear to improve the situation, including improving the feedback mechanism on the online system.

Chris Lee said that it is important that residents continue to log missed collections and other service failures through the online system so that these can be logged and dealt with as well as being used to generate information for use in calculating financial deductions. He added that his main motivation is to obtain a high level of service for residents rather than to collect financial penalties as these were an indicator of poor service.

In response to a question about how service standards are communicated to street cleaning operatives, Chris Lee said that that was a matter for the contractor, that the council is not involved in operational detail or training but rather in ensuring that service levels are high.

The task group RESOLVED to move to a closed session in order to discuss the exempt information that had been provided to them. The rest of this minute is a public record of this discussion, without inclusion of any commercially sensitive information.

Public minute of closed session

Chris Lee outlined the information that had been provided in the confidential appendices, giving examples of the level of financial deduction that might be applied to each of the service performance indicators (SPIs). He re-iterated that deductions had already been made and that these were increasingly being automatically deducted from invoices by Veolia on a monthly basis rather than waiting till the end of the year but that there would be discussion and judgements made regarding the final amounts to be applied for 2017/18 and 2018/19.

In response to a question about the communications plan around deductions, Chris Lee said that there would be a report to the Sustainable Communities Overview and Scrutiny Panel and possibly also to Cabinet on the final position and annually. He undertook to consider the most appropriate way to communicate this to residents.

In response to a question about the level of deductions made, Chris Lee said that it was a significant amount for Veolia and that reputational damage would also likely be a significant concern for the contractor should they be seen to be failing.

Charles Baker, Waste Strategy and Commissioning Manager, responded to a question on garden waste to explain the mechanism by which costs and profits are shared between the council and IdVerde.

In response to questions about litter in parks, Doug Napier (Greenspaces Manager) and Councillor Nick Draper (Cabinet Member for Community and Culture) shared information about the recent project in Wandle Park during which litter bins were removed to assess what impact this would have on the amount of litter dropped.

The task group AGREED the agenda items for the meeting on 4 April:

- Merantun – progress update and deepdive on the financial monitoring
- Report on contingency funds and reserves
- an update on debt and the use of the specialist debt review company
- Update on learning from Lean reviews
- Departmental risk registers (Chair to discuss with Director of Corporate Services to ascertain most appropriate approach)

In relation to its 2019/20 work programme, the task group AGREED the request made by the Overview and Scrutiny Commission to carry out a deep dive review of the future capital programme. Task group members AGREED to add a report on the allocation of grants through the voluntary sector strategic partners programme. Task group members also agreed to email additional work programme suggestions to the Chair and the Head of Democracy Services. ACTION: All

The task group agreed to meet in July 2019, November 2019, February 2020 and April 2020 at dates to be arranged in consultation with the Director of Corporate Services so that the quarterly financial monitoring reports can be considered in July (outturn report 2018/19 and quarter 1 2019/20), November (quarter 2) and February (quarter 3). ACTION: Head of Democracy Services

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Committee: Financial Monitoring Task Group

Date: 4 April 2019

Wards: All

Subject: Update on Specialist Debt Collection Agency and Debt Factoring

Lead officer: Caroline Holland, Director of Corporate Services

Lead member: Councillor Mark Allison, Deputy Leader and Cabinet Member for Finance

Contact officer: David Keppler, Head of Revenues and Benefits

Recommendations:

1. That the Financial Task Group discusses the contents of the report and provides any comment or update to officers.
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1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. This report provides an update and progress of the specialist debt collection agency who are engaged to collect adult social care debt for the council.
- 1.2. The report also provides an update on the current arrangements in place for using external debt collection agencies and the effectiveness and cost of these services. .

2 DETAILS

2.1. Specialist Debt Collection Agency

- 2.2. The council collects a variety of sundry debts or income from residents and businesses for services provided and where the customer fails to pay the invoice the case is passed to the Debt Recovery team to collect. The quarterly Financial Monitoring report includes the Debt Report which details the level of debt and the work being undertake to recover it.
- 2.3. One of the services with the largest level of debt owed is for Adult Social Care. As at the end of December 2018 the level of debt was £4.9 million. This can be a difficult debt to collect and in many instances involves dealing with executors of estates, solicitors, relatives, social workers, client financial affairs team and representatives of clients. In many instances getting agreement to pay for care is difficult and there are disputes regarding responsibility and affordability to pay and financial assessments.
- 2.4. The council often has to initiate legal action to recover this type of debt and we have found that communication and engagement is not easy. The debt recovery team used to have a member of staff that would undertake this legal work but after he left we were unable to recruit to the post. The team have used the Shared Legal Service in some instances. Officers saw a presentation from specialist debt recovery agents who have several other London boroughs

as customers and following discussions with them and agreement of a Service level Agreement it was decided to undertake a year trial using the external company.

- 2.5. The trial commenced in February 2018 and they were initially passed 15 cases to progress with a total debt value of £920,000. Over the remainder of the year they have been passed another 19 cases with a debt value of £941,000.
- 2.6. Council officers are in regular communication with the agents on individual cases, providing further information and discussing collection options. A more formal written update is received for all cases.
- 2.7. A recent meeting was held to review the year's trial with the manager of the debt collection agents. She commented that the quality of referrals sent was good and this was substantiated by the relative low number of cases returned as unable to progress. Discussions were held regarding better reporting of progress and it was agreed that a quarterly traffic light report would be provided indicating the likelihood of full payment being received. At this stage they are unable to provide an estimated timeframe for collection due to the complexities involved in often securing payment.
- 2.8. The tables below show this information. Open and closed cases shows the total number of cases and debt value referred. Closed cases shows the cases either paid or returned or called back as unable to collect. The final table shows the number and value of live cases along with the traffic light analysis of the likelihood of payment.

Open and Closed Cases				
Row Labels	Count of Matter_No	Sum of Instructed_Debt	Sum of Cleared_Payments	
Deceased Debtor	20	£ 1,092,393.81	£ 205,103.66	
Live Debtor	14	£ 769,214.91	£ 30.00	
Grand Total	34	£ 1,861,608.72	£ 205,133.66	

Closed Cases				
Row Labels	Count of Matter_No	Sum of Instructed_Debt	Sum of Cleared_Payments	Sum of % Recovery
Deceased Debtor	10	£ 392,425.33	£ 153,012.65	39%
Live Debtor	1	£ 85,754.11	£ -	0%
Grand Total	11	£ 478,179.44	£ 153,012.65	32%

Row Labels	Count of Matter_No	Sum of Instructed_Debt	Sum of Cleared_Payments
Amber	7	£ 480,082.42	£ -
Green	12	£ 679,783.03	£ 52,121.01
Red	4	£ 223,563.83	£ -
Grand Total	23	£ 1,383,429.28	£ 52,121.01

Amber	50 - 69% Prospect of Success
Green	70 - 100% Prospect of Success
Red	1 - 49% Prospect of Success

- 2.9. Of the 11 cases closed 4 (32%) have been paid totalling £153,012.
- 2.10. Of the open cases 2 of them have already been paid although the payments will be transferred to the council at the end of March. The table above shows one of £52,121 and there is another one of £67,265. Once these payments have been received we would have had just over £272,000 collected on 6 cases.
- 2.11. Although the debt collection agents are reluctant to give timeframes due to the complexity of collecting this debt they have indicated that they estimate that £325,000 of the 12 cases which have been flagged as green could be paid within the next three to six months.
- 2.12. As detailed in 2.5 above the initial arrangement was for a year. The initiative has been relatively successful as by the end of the March 2019 we would have had £272,000 collected of the £1,861,000 total debt passed to them (14.6%).
- 2.13. Generally the cost of the recovery action is met by the debtor as they are able to charge for undertaking legal action to pursue the debt.
- 2.14. Interest can be charged on the debt once a court judgement is obtained and the interest is paid to the council.
- 2.15. Where the collection agents have not been able to pursue the debt or we have requested cases are not pursued after referral, the council will be liable for any costs that have been incurred. The initial fee for reviewing the case is £150.00 and then as more work is undertaken on the case fees would obviously increase. These cases are likely to be written off if we are unable to pursue or collect via another method if appropriate.
- 2.16. As there has clearly been a benefit in using an external specialist collection agency to pursue adult social care debt a proposal will be put together to undertake a procurement process to engage with an external provider in a formal contract. Discussions will also take place with the Shared Legal Service

to identify any opportunity for them to pursue any cases. This may give opportunity to benchmark performance of the different providers.

2.17. **Debt Factoring**

2.18. At present the council does not sell debt to collection agencies to collect although we do have an existing arrangement where we pay collection agencies a percentage of the debt they collect for us.

2.19. For several years we have used two companies to collect sundry debt and we pay them a percentage of the debt they collect. The types of debt we pass them would include housing benefit overpayments, overpayment of salaries, commercial waste etc.

2.20. One of the companies are paid 15% of the debt they collect and the other is paid dependant on the age of the debt, 10% for debt less than a year, 15% one to two years, 20% two to three years and 40% over three years.

2.21. The amounts collected over previous years after the percentage deduction for collection are detailed below:

Year	Amount
2013/14	£58,000
2014/15	£55,000
2015/16	£54,000
2016/17	£47,000
2017/18	£25,000
2018/19	£18,000

2.22. In January 2019 initial discussions were held with a company that have assisted the revenues and benefits team previously regarding the collection of outstanding housing benefit debt.

2.23. As at the end of December 2018 the level of debt for housing benefit overpayments was £8.047 million. Of this debt £1.9 million is at a stage where there is no payment arrangement in place or other recovery method. For some of this debt we are still actively pursuing using different methods such as data sharing with the DWP, cold calling etc. However, for some we have failed to engage or contact the debtor or establish a method of recovering the debt. The next stage would be to consider passing to a debt collection agent or possible write off depending on the age and value of the debt.

2.24. The company will put together a proposal where they will take this uncollected debt and estimate how much of the debt they believe they will collect and then charge a set fee for collection. If they exceed the target they will then receive an additional percentage of the amount collected.

2.25. They also want to take our written off housing benefit overpayments over the last five years and provide a proposal to try to collect that debt based on payment by performance. In the past five years we have written off approximately £2.5 million.

- 2.26. A meeting is scheduled for 26 March 2019 to review the level of debt to be included within the proposals and to discuss collection methods and any service level agreements to cover performance and interaction with our debtors. We will need to ensure that any collection methods are acceptable to the council and will not adversely affect our reputation. An update will be provided at the meeting.

3 ALTERNATIVE OPTIONS

- 3.1. For the legal work to assist with collecting adult social care work we could consider recruiting an officer to the debt collection team to specialise in this work but this approach would give little resilience and previous attempts to recruit to this role were unsuccessful.
- 3.2. For the housing benefit overpayment debt we could consider an in house option to increase resources to enable regular home visits, cold calling and tracing enquiries in an attempt to collect the debt. There would be a lead in period for recruitment, training etc.

4 CONSULTATION UNDERTAKEN OR PROPOSED

- 4.1. None for the purpose of this report.

5 TIMETABLE

- 5.1. An agreed way forward with regards to the collection of adult social care debt by a specialist collection agency and a procurement process will be agreed by June 2019.
- 5.2. A formal proposal regarding the housing benefit overpayment debt is expected mid April 2019 and a decision to progress or not will be made then.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 6.1. None for the purpose of this report

7 LEGAL AND STATUTORY IMPLICATIONS

- 7.1. Both adult social care debt and housing benefit overpayments are collected in line with appropriate legislation. The recovery options and methods we use will ensure where possible the most effective collection.
- 7.2. For adult social care we look to encourage payment by direct debit of ongoing charges. Where regular payments are not made we will look to engage with the debtor or debtors representative to secure payments via arrangements. However, where we are unable to engage we will consider legal action depending on individual circumstances.
- 7.3. For housing benefit overpayments we will initially aim to recover by reducing on going benefit to recover overpayments as the most effective method. If this

is not possible we will look at attachment to earnings or state benefits as secured methods of collection.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

8.1. There are no specific human rights, equalities or community cohesion issues arising from this report

9 CRIME AND DISORDER IMPLICATIONS

9.1. None for the purpose of this report

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

10.1 None for the purpose of this report

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

None

12 BACKGROUND PAPERS

FINANCIAL MONITORING TASK GROUP

Date: 4 April 2019

Subject: Report on contingency funds and reserves

Lead officer: Caroline Holland

Lead member: Mark Allison

Contact officer: Andrew Wood

Recommendations:

1. That the Financial Monitoring Task Group discuss and comment on the information on Merton's revenue contingency funds and reserves.
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1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. This report provides some background details on the Council's revenue contingency funds and reserves. It sets out reasons why they are needed, the purposes for which they are held and how the level of Merton's reserves compares with other Council's in London.

2 DETAILS

- 2.1. At its meeting on 25 February 2019 the financial monitoring task group requested that a report be presented to this meeting on the Council's contingency funds and reserves. Whilst capital reserves are listed in Appendices 1 and 2, this report focuses on revenue reserves as these are the key reserves that support the Medium Term Financial Strategy.
- 2.2 **Legislative/Regularity Framework**
 - 2.2.1 The requirement for financial reserves is acknowledged in statute. Sections 31A, 32 42A and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
 - 2.2.2 There are also a range of safeguards in place that help to prevent local authorities over-committing themselves financially. These include:
 - the balanced budget requirement: - England, sections 31A, 42A of the Local Government Finance Act 1992, as amended
 - the chief finance officers' duty to report on robustness of estimates and adequacy of reserves (under Section 25 of the Local Government Act 2003) when the authority is considering its budget requirement
 - the legislative requirement for each local authority to make arrangements for the proper administration of their financial affairs and that the chief finance

officer has responsibility for the administration of those affairs (under Section 151 of the Local Government Act 1972).

These requirements are reinforced by Section 114 of the Local Government Finance Act 1988 which requires a chief finance officer in England and Wales to report to all the authority's councillors if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year. The issue of a Section 114 notice would have serious operational implications for a local authority.

- 2.2.3 It is the responsibility of the chief finance officer to advise local authorities about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use. Reserves should not be held without a clear purpose.
- 2.2.4 CIPFA's Local Authority Accounting Panel (LAAP) issues bulletins to assist with the application of the requirements of the Code of Practice on Local Authority Accounting. Bulletins provide guidance that is intended to be best practice but are not prescriptive and do not have the formal status of the Code of Practice. LAAP Bulletin 99 provides such guidance on Local Authority Reserves and Balances and Merton follows this guidance in its approach towards and management of its reserves and balances.
- 2.2.5 The Council follows the best practice guidance and reflects this in its approach to financial management. This includes the guidance in the Council's Financial Regulations as part 4F of the Council's Constitution.
- 2.2.6 In the Budget report to Council on 6 March 2019, the Director of Corporate Services fulfilled the requirements of Section 25(2) of the Local Government Act 2003 and reported in her Positive Assurance Statement on
 - a) the robustness of the estimates made for the purposes of the calculations, and
 - b) the adequacy of the proposed financial reserves.

2.2.7 **Risks**

The Positive Assurance Statement has regard to the financial risks that may impact on the Council's financial position. These include:

- a) The current economic position including future risks relating to Brexit
- b) Whether budget setting and monitoring processes are robust and
- c) effective
- d) Demand pressures on the budget
- e) Identifying and achieving cost and income improvements
- f) Risks to Government funding levels, particularly in light of the impending Spending Review 2019 and the Fair Funding Review currently both due to take effect in 2020/21
- g) Risks to other income streams including Business Rates Retention

2.3 **The Role of External Audit**

2.3.1 Whilst it is primarily the responsibility of the local authority and its chief financial officer to maintain a sound financial position, external auditors will confirm that there are no material uncertainties about going concern. Even where as part of their wider role auditors have to report on an authority's financial position, it is not their responsibility to prescribe the optimum or minimum level of reserves for individual authorities or authorities in general.

2.4 **The Role of the Government**

2.4.1 Section 26 of the Local Government Act 2003 gives Ministers in England and Wales a general power to set a minimum level of reserves for local authorities. However, the government has undertaken to apply this only to individual authorities in the circumstances where an authority does not act prudently, disregards the advice of its chief finance officer and is heading for serious financial difficulty.

2.5 **Types of Reserve**

2.5.1 Reserves can be held for three main purposes:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing
- a contingency to cushion the impact of unexpected events or emergencies
- a means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements;

2.5.2 LAAP Bulletin 99 recommends that for each earmarked reserve there should be a clear protocol setting out:

- the reason for / purpose of the reserve;
- how and when the reserve can be used;
- procedures for the reserve's management and control; and
- a process and timescale for review of the reserve to ensure continuing relevance and adequacy.

A copy of the pro forma that officers provide to the external auditors to summarise this information for each earmarked reserve as part of the final accounts process is included in Appendix 4.

2.5.3 LAAP Bulletin 99 makes it clear that chief finance officers should take account of the strategic, operational and financial risks facing the authority in order to assess the adequacy of unallocated general reserves when setting the budget.

2.5.4 The Codes of Audit Practice in England, Wales, Scotland and Northern Ireland make it clear that it is the responsibility of the audited body to identify and address its operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective

systems of internal control. The financial risks should be assessed in the context of the authority's overall approach to risk management.

2.5.5 In the Annual Budget Report to Council (Council 6 March 2019 for 2019/20) a risk based approach is set out to estimate an appropriate level of general fund balances. The report also includes a calculation based on the Audit Commission's report "Striking a Balance" which is referred to in the LAAP Bulletin.

2.5.6 For 2019/20 the analysis produces the following indicative range of balances

	Min	Medium	Max
	£m	£m	£m
Level of balances	12.53	20.12	27.81

2.5.7 As indicated in the LAAP Bulletin there are many risks that local authorities can be affected by and these are constantly changing. The Bulletin advises that "the many factors involved when considering appropriate levels of reserves can only be assessed properly at a local level. A considerable degree of professional judgement is required. The chief finance officer may choose to express advice on the level of balances in cash and/or as a percentage of budget (to aid understanding) so long as that advice is tailored to the circumstances of the authority. The Audit Commission Report (December 2012) Striking a Balance makes a number of recommendations to both Chief Finance Officers and elected members to better assist councils in their decision making."

2.6 Merton's Reserves

2.6.1 Merton follows the good practice guidelines set out in LAAP Bulletin 99. A review of Merton's reserves was undertaken as part of the Business Planning process and reported to Council on 6 March 2019. The estimated level of earmarked reserves changes from £28.346m as at 31 March 2018 to £9.999m by 31 March 2023. The details of Merton's reserves as reported to Council on 6 March 2019 are included as Appendix 1.

2.6.2 Merton's reserves as at 31 March 2018 are set out in the Council's Statement of Accounts for 2017/18. These are set out in Appendix 2.

2.6.3 Merton's reserves are not excessive when compared to other London boroughs. As reported to Council on 6 March 2019, the average level of earmarked reserves (excluding schools and HRA) for outer London boroughs for 2017/18 was £65.711m, with a low of £11.395m and a high of £202.6m. Merton, with £33.575m (excluding schools) is ranked 15th highest out of 20 outer London boroughs. Merton's General Fund balances of £12.778m as at 31 March 2018 compare with an average level of General Fund balances for outer London boroughs for 2017/18 of £14.669m, with a low of £9.075m and a high of £40.323m. A summary of London Borough's reserves as at 31 March 2018 is provided at Appendix 3.

2.7 Corporate Contingency

- 2.7.1 In addition to its reserves Merton also has a corporate contingency, currently at £1.5m, as part of its revenue budget. This is available as cover for any unforeseen expenditure and can offset overspends in service departments.

2.8 Recent Developments

- 2.8.1 In February 2018 Northamptonshire County Council issued a Section 114 notice banning all new expenditure on non-statutory services. This announcement has led to the spotlight being put on the ongoing financial issues facing local authorities. An independent inspection report was published on 15 March 2018, giving evidence that the council had failed in its best value duty. The inspector found that failures at the council were not due to a lack of funding, but a result of poor management, a lack of budgetary control and a culture which discouraged challenge.
- 2.8.2 CIPFA state that “effective financial management in the public sector has always been built on planning for the longer term but the necessity now is to ensure organisations have the resilience to deliver annual savings and manage significant financial shocks while still pursuing ambitious goals for their local communities.”
- 2.8.3 In July 2018 the Public Accounts Committee requested the Government to work with local authorities and key stakeholder bodies to agree and publish a shared definition of local authority financial sustainability and a methodology for assessing the extent to which local authorities are at risk.
- 2.8.4 Subsequently, CIPFA are developing a financial resilience index. This will include data in respect to reserves and the level to which they support the finance resilience of local authorities.

3 ALTERNATIVE OPTIONS

- 3.1. As set out in the report the requirement for financial reserves is acknowledged in statute.

4 CONSULTATION UNDERTAKEN OR PROPOSED

- 4.1. Merton’s contingency and reserves are regularly reviewed and included in reports to Cabinet and Council and subject to the scrutiny process. This includes reports on the Statement of Accounts and the process of budget setting and formulating the Medium Term Financial Strategy.

5 TIMETABLE

- 5.1. Regular reports on the Council’s contingency and reserves will be made in accordance with closing and business planning timetables.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

6.1. As set out in the report.

7 LEGAL AND STATUTORY IMPLICATIONS

7.1. As set out in the report.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

8.1. None arising from this report.

9 CRIME AND DISORDER IMPLICATIONS

9.1. None arising from this report.

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

10.1. None arising from this report.

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

Appendix 1 - Summary of Reserves as reported to Council 6 March 2019

Appendix 2 - Details of reserves as at 31 March 2018 Statement of Accounts

Appendix 3 – Summary of London borough’s reserves as at 31 March 2018

Appendix 4 – Pro forma showing details of earmarked reserves provided for external audit purposes.

12 BACKGROUND PAPERS

Budget papers reported to Council 6 March 2019

Statement of Accounts 2017/18

Working papers in Corporate Services department

Reserves

Forecast Movement in Reserves 2018-23	Bal. at 31/3/18 £'000	Net Movt. in year £'000	Bal. at 31/3/19 £'000	Net Movt. in year £'000	Bal. at 31/3/20 £'000	Net Movt. in year £'000	Bal. at 31/3/21 £'000	Net Movt. in year £'000	Bal. at 31/3/22 £'000	Net Movt. in year £'000	Bal. at 31/3/23 £'000
General Fund Reserve	12,778	0	12,778	0	12,778	0	12,778	0	12,778	0	12,778
Earmarked Reserves	28,346	(6,373)	21,973	(8,902)	13,070	(5,669)	7,401	59	7,461	147	7,608
Grants & Contributions	3,223	(2,569)	655	(491)	163	(19)	144	(19)	125	(19)	107
Total Available Gen. Fund Rev. Reser	44,347	(8,942)	35,405	(9,394)	26,012	(5,688)	20,324	40	20,364	128	20,492
Fixed to Contracts	1,955	0	1,955								
Total General Fund revenue reserves	46,301	(8,942)	37,360	(9,394)	27,966	(5,688)	22,278	40	22,319	128	22,447
Schools Balances & Reserves	14,420	(5,153)	9,267	9	9,276	(360)	8,916	(516)	8,400	(453)	7,947

APPENDIX 1

Analysis	Bal. at 31/3/18 £'000	Net Movt. in year £'000	Bal. at 31/3/19 £'000	Net Movt. in year £'000	Bal. at 31/3/20 £'000	Net Movt. in year £'000	Bal. at 31/3/21 £'000	Net Movt. in year £'000	Bal. at 31/3/22 £'000	Net Movt. in year £'000	Bal. at 31/3/23 £'000
Earmarked Reserves											
Outstanding Council Programme Board Reserve	4,545	(822)	3,723	(2,059)	1,664	(1,258)	406	(88)	318	0	318
For use in future years' budgets	11,131	(5,107)	6,024	(2,034)	3,990	(3,990)	0	0	0	0	0
Revenue Reserve for Capital/Revenuisation	3,498	28	3,526	(3,526)	(0)	0	(0)	0	(0)	0	(0)
Energy renewable reserve	1,523	0	1,523	(300)	1,223	(500)	723	0	723	0	723
Repairs and Renewals Fund	1,090	0	1,090	(450)	640	0	640	0	640	0	640
Pension Fund additional contribution	453	0	453	(125)	328	0	328	0	328	0	328
Local Land Charges	2,038	177	2,215	177	2,392	177	2,569	177	2,746	177	2,923
Apprenticeships	261	(152)	108	(40)	68	(68)	0	0	0	0	0
Community Care Reserve	1,385	0	1,385	0	1,385	0	1,385	0	1,385	0	1,385
Local Welfare Support Reserve	376	(30)	346	(30)	316	(30)	286	(30)	256	(30)	226
Economic Development Strategy	2	(2)	0	0	0	0	0	0	0	0	0
LEP - New Homes Bonus funded projects	122	0	122	0	122	0	122	0	122	0	122
Corporate Services Reserves	1,771	(465)	1,306	(365)	941	0	941	0	941	0	941
Wimbledon Tennis Court Renewal Fund	150	0	150	(150)	0	0	0	0	0	0	0
Earmarked Reserves	28,346	(6,373)	21,973	(8,902)	13,070	(5,669)	7,401	59	7,461	147	7,608
Culture and Environment contributions	14	148	162	(162)	0	0	0	0	0	0	0
Culture and Environment grant	517	(434)	83	(26)	57	(19)	38	(19)	19	(19)	0
Childrens & Education grant	426	(122)	304	(304)	0	0	0	0	0	0	0
Adult Social care grants	2,161	(2,161)	(0)	0	(0)	0	(0)	0	(0)	0	(0)
Housing GF grants	106	0	106	0	106	0	106	0	106	0	106
Public Health Grant Reserve	(0)	0	(0)	0	(0)	0	(0)	0	(0)	0	(0)
Grants & Contributions	3,223	(2,569)	655	(491)	163	(19)	144	(19)	125	(19)	107
Total	31,569	(8,942)	22,627	(9,394)	13,234	(5,688)	7,546	40	7,586	128	7,714
Insurance Reserve	1,955	0	1,955	0	1,955	0	1,955	0	1,955	0	1,955
Fixed to Contracts	1,955	0	1,955								

APPENDIX 1

Analysis	Bal. at 31/3/18 £'000	Net Movt. in year £'000	Bal. at 31/3/19 £'000	Net Movt. in year £'000	Bal. at 31/3/20 £'000	Net Movt. in year £'000	Bal. at 31/3/21 £'000	Net Movt. in year £'000	Bal. at 31/3/22 £'000	Net Movt. in year £'000	Bal. at 31/3/23 £'000
DSG Reserve	928	(5,428)	(4,500)	0	(4,500)	0	(4,500)	0	(4,500)	0	(4,500)
Governor Support Reserve	28	0	28	0	28	0	28	0	28	0	28
Schools Reserve	0	0	0	0	0	0	0	0	0	0	0
CSF reserve	25	0	25	0	25	0	25	0	25	0	25
Refund of PFI contributions	0	0	0	0	0	0	0	0	0	0	0
Schools PFI Fund	5,247	275	5,522	9	5,530	(360)	5,171	(516)	4,655	(453)	4,202
Earmarked Schools Balances	8,145	0	8,145	0	8,145	0	8,145	0	8,145	0	8,145
Schools Standards Fund balances	372	0	372	0	372	0	372	0	372	0	372
Schools Fund	(325)	0	(325)	0	(325)	0	(325)	0	(325)	0	(325)
Schools Reserves	14,420	(5,153)	9,267	9	9,276	(360)	8,916	(516)	8,400	(453)	7,947

CAPITAL RESERVES

Forecast Movement in Reserves 2018-23	Bal. at 31/3/18 £'000	Net Movt. in year £'000	Bal. at 31/3/19 £'000	Net Movt. in year £'000	Bal. at 31/3/20 £'000	Net Movt. in year £'000	Bal. at 31/3/21 £'000	Net Movt. in year £'000	Bal. at 31/3/22 £'000	Net Movt. in year £'000	Bal. at 31/3/23 £'000
Capital Grants	3,476	(3,476)	0	0	0	0	0	0	0	0	0
Capital Contributions	0	0	0	0	0	0	0	0	0	0	0
CIL Reserve	7,001	2,769	9,770	(5,753)	4,017	(3,477)	540	(540)	0	0	0
Capital Receipts	15,513	(9,457)	6,056	(6,056)	(0)	0	(0)	0	(0)	0	(0)
Capital Reserves	25,991	(10,164)	15,826	(11,809)	4,017	(3,477)	540	(540)	0	0	0

RESERVES

16. USABLE RESERVES

Usable Reserves	Balance at 31 March 2016 £000	Transfers out 2016/17 £000	Transfers in 2016/17 £000	Balance at 31 March 2017 £000	Transfers out 2017/18 £000	Transfers in 2017/18 £000	Balance at 31 March 2018 £000
General Fund:							
Balances held by schools	(10,504)	2,258	0	(8,246)	426	0	(7,820)
General Fund Balances	(15,151)	2,373	0	(12,778)	0	0	(12,778)
Earmarked reserves	(41,690)	5,762	(5,177)	(41,105)	3,183	(2,200)	(40,122)
Total General Fund	(67,345)	10,393	(5,177)	(62,129)	3,609	(2,200)	(60,720)
Capital:							
Capital Receipts Reserves	(29,582)	12,993	(6,397)	(22,986)	12,001	(4,528)	(15,513)
Capital Grants Unapplied	(4,153)	830	(3,928)	(7,251)	185	(3,413)	(10,479)
Total Capital	(33,735)	13,823	(10,325)	(30,237)	12,186	(7,941)	(25,992)
Total Usable Reserves	(101,080)	24,216	(15,502)	(92,366)	15,795	(10,141)	(86,712)

General Fund Balance - This fund includes any surplus after meeting net expenditure on Council services.

Earmarked Reserves - Earmarked reserves are amounts set aside from the General Fund to provide financing for future expenditure plans. Also included in this note are amounts held by schools under delegated schemes and amounts set aside to meet future insurance claims. (see Note 11 for detail)

Capital Receipts Reserve - This represents receipts from the sale of land and other assets. The reserve can be used for the repayment of external loans, or transferred to the capital adjustment account to finance capital expenditure.

Capital Grants Unapplied - These are unapplied capital grants set aside for future capital expenditure. The balance includes unapplied Community Infrastructure Levy receipts.

Transfers to/from Earmarked Reserves

Reserve	Balance at 31st March 2016	Net Transfer (to)/from Reserve	Balance at 31st March 2017	Net Transfer (to)/from Reserve	Balance at 31st March 2018
	£000	£000	£000	£000	£000
Outstanding Council Programme Board	(6,281)	1,362	(4,919)	374	(4,545)
For use in future years' budgets	(5,865)	(1,924)	(7,789)	(2,472)	(10,261)
Revenue Reserve for Capital/Revenuisation	(7,747)	932	(6,815)	3,317	(3,498)
Renewable energy reserve	(1,522)	0	(1,522)	1	(1,523)
Repairs and renewals fund	(1,224)	77	(1,147)	57	(1,090)
Pension fund additional contribution	(63)	(434)	(497)	44	(453)
Local land charges	(1,645)	(258)	(1,903)	(135)	(2,038)
Apprenticeships	(406)	104	(302)	42	(260)
Community care reserve	(1,386)	0	(1,386)	(1)	(1,385)
Local welfare support reserve	(533)	90	(443)	67	(376)
Economic development strategy	(619)	518	(101)	99	(2)
Corporate services reserves	(290)	(486)	(776)	(995)	(1,771)
Wimbledon tennis courts renewal	(102)	(25)	(127)	(23)	(150)
Governor support reserve	(18)	(24)	(42)	14	(28)
Redundancy costs reserve	0	(600)	(600)	600	0
BRS Reserve	0	(870)	(870)	0	(870)
New homes bonus scheme	(1,037)	746	(291)	169	(122)
Adult social care contributions	(350)	350	0	(2,160)	(2,160)
Culture & environment contributions	(134)	120	(14)	0	(14)
Culture & environment grants	(413)	163	(250)	(267)	(517)
Children & education grants	(371)	65	(306)	(119)	(425)
Supporting people balances	(65)	65	0	0	0
Housing planning development grants	(101)	101	0	0	0
Housing GF grants	(106)	0	(106)	0	(106)
Public health grant reserve	(22)	(325)	(347)	347	0
Insurance reserves	(1,955)	0	(1,955)	0	(1,955)
DSG reserve	(4,369)	705	(3,664)	2,736	(928)
Refund of school PFI contributions	(100)	0	(100)	100	0
School standard Fund	0	(6)	(6)	(366)	(372)
Schools PFI fund	(4,601)	(226)	(4,827)	(421)	(5,248)
CFS Reserves	(365)	365	0	(25)	(25)
Grand Total	(41,690)	585	(41,105)	983	(40,122)

Purpose of Earmarked Reserves

Outstanding Council Programme Board: This reserve is held to fund the transformation of services for the Council.

For use in future years' budgets: These funds are used to balance any budgetary gaps, as identified in the medium term financial strategy, until agreed savings are achieved.

Revenue reserve for capital/revenue: The reserve provides revenue support towards funding capital expenditure and, where necessary, funds revenue expenditure which has been re-classified from the capital programme.

Renewable energy: To fund the cost of implementing renewable energy measures with lower carbon impact in Council buildings, as part of the Authority's strategy to reduce its environmental impact.

Repairs and renewals fund: To support day-to-day revenue expenditure, such as maintenance work, on fixed assets.

Transforming families reserve: The reserve is held to fund central government's troubled families' initiative.

Pension fund additional contribution: This reserve is used to fund the costs of any enhanced early retirement benefits, which must be borne by the general fund.

Local Land Charges: The reserve will be used to fund any liability arising from potential legal challenges in relation to local land charges.

Apprenticeships: The reserve is used to fund the Authority's apprenticeship scheme.

Community care reserve: Used to fund learning and disability transition expenditure, including TUPE and redundancy cost from the NHS, and other learning and disability related expenditure.

Local welfare support reserve: Reserve holds any underspend arising from the local welfare support scheme.

Economic development strategy: For projects that support economic development in the Borough.

Governor support reserve: Service provided jointly with LB Sutton. This reserve holds an underspend from prior years. Expenditure must be agreed jointly by the two Boroughs.

BRS reserve: This holds the difference between sums received in respect of Business Rates Supplement and sums paid to the GLA pending confirmation as to whether there is a liability for this balance.

Wimbledon tennis courts renewal: Funds held in accordance with the agreement for the upkeep of Merton's tennis courts.

Corporate services reserves: This reserve funds corporate projects, LPFA former GLC contributions and also provides a contingency to cover any

Housing Benefit Subsidy Grant that may be clawed back from the Council by the Department of Work and Pensions.

New homes bonus scheme: Top-slice funding received from the Greater London Authority. The funds must be used to deliver three specific projects that contribute to London - Brighter Business: Resilience through energy efficiency; Morden Master planning; and Morden Retail Gateway.

Adult social care grants: To ensure that government grant provided for Adult Social Care is utilised efficiently and effectively.

Culture & environment contributions: The grants and funds will mainly be spent on the weekly collection support scheme.

Culture & environment grants: To hold unspent funds from various grants, including: Trees for Cities, Air Quality, Heat Networks Delivery Unit and Sports Blast

Children & education grants: The reserve holds unspent receipts from the following grants: Social Work Improvement Fund Training, Troubled Families, Adoption Reform, and SEN Reform.

Housing planning development grants: Funds are used to support housing planning developments.

Housing GF grants: Used to fund rent deposits for homeless people.

Public health grant reserve: Carry forward of unspent public health grant. The funds will be spent on public health related services

Insurance reserves: The Authority, in line with most other local authorities, self- insures for claims up to a certain value. The insurance reserve is held for this purpose.

DSG reserve: The reserve holds prior year underspends on the Dedicated Schools Grant. It is used to fund projects determined by the Schools Forum.

Schools reserve: Resources to support inspections preparation, project support, capacity building for transformation and commissioning post funding.

Refund of schools' PFI contributions: To fund the reimbursement of previous overpayments, made by three schools to the Authority, towards the Private Finance Initiative Scheme (see Note 27).

Schools PFI fund: Programmed reserve to balance general fund contributions to the PFI scheme evenly over the contract term.

APPENDIX 3

LONDON BOROUGHS - SUMMARY OF RESERVES AS AT 31 MARCH 2018

	Inner/ Outer	Borough	General	Earmarked	Sub-total	Schools	HRA	Total	Capital
			Fund	Revenue		balances	Reserves	Revenue	Reserves
			balances	Reserves exc.		balances	Reserves	Reserves	Reserves
			exc. Schools,	Schools, HRA		31/3/18	31/3/18	31/3/18	31/03/18
			HRA			£000	£000	£000	£000
			31/3/18	31/3/18					
			£000	£000	£000	£000	£000	£000	£000
1	Inner	Camden	13,620	78,832	92,452	24,041	31,110	147,603	71,664
2	Inner	Greenwich	13,269	104,012	117,281	37,933	18,558	173,772	155,263
3	Inner	Hackney	15,007	114,401	129,408	11,057	30,426	170,891	155,263
4	Inner	Hammersmith & Fulham	19,004	94,994	113,998	11,329	51,610	176,937	73,011
5	Inner	Islington	8,723	65,421	74,144	9,319	79,930	163,393	121,642
6	Inner	Kensington & Chelsea	10,000	120,328	130,328	5,409	20,449	156,186	139,600
7	Inner	Lambeth	22,851	48,934	71,785	15,150	55,140	142,075	119,006
8	Inner	Lewisham	13,000	136,927	149,927	23,196	70,209	243,332	104,120
9	Inner	Southwark	18,803	70,652	89,455	9,857	30,880	130,192	79,849
10	Inner	Tower Hamlets	33,255	118,605	151,860	23,373	47,558	222,791	292,877
11	Inner	Wandsworth	14,506	147,003	161,509	14,218	132,765	308,492	347,883
12	Inner	Westminster	58,865	146,950	205,815	9,722	34,535	250,072	378,323
13	Outer	Barking & Dagenham	17,030	43,001	60,031	14,275	15,850	90,156	106,852
14	Outer	Barnet	15,083	75,755	90,838	12,489	15,003	118,330	127,089
15	Outer	Bexley	13,732	43,732	57,464	3,252	-	60,716	13,500
16	Outer	Brent	12,300	202,600	214,900	23,800	5,400	244,100	120,900
17	Outer	Bromley	20,000	123,778	143,778	2,219	-	145,997	58,831
18	Outer	Croydon	10,393	15,746	26,139	2,407	14,535	43,081	71,658
19	Outer	Ealing	15,473	67,905	83,378	14,788	9,926	108,092	42,272
20	Outer	Enfield	14,000	65,300	79,300	2,300	20,600	102,200	63,600
21	Outer	Haringey	15,493	60,508	76,001	7,707	38,192	121,900	67,967
22	Outer	Harrow	10,008	29,361	39,369	13,951	7,474	60,794	50,399
23	Outer	Havering	11,766	59,523	71,289	8,950	8,157	88,396	130,957
24	Outer	Hillingdon	40,323	34,139	74,462	5,433	37,108	117,003	51,242
25	Outer	Hounslow	10,200	105,300	115,500	12,600	37,000	165,100	88,000
26	Outer	Kingston	11,619	11,395	23,014	6,059	6,184	35,257	22,709
27	Outer	Merton	12,778	33,575	46,353	14,368	-	60,721	25,991
28	Outer	Newham	12,352	151,466	163,818	24,769	64,042	252,629	266,771
29	Outer	Redbridge	17,221	49,942	67,163	18,270	15,761	101,194	64,767
30	Outer	Richmond	9,956	26,613	36,569	7,369	-	43,938	15,750
31	Outer	Sutton	9,075	23,989	33,064	3,663	3,104	39,831	44,588
32	Outer	Waltham Forest	14,572	90,586	105,158	8,911	4,455	118,524	59,157
			534,277	2,561,273	3,095,550	402,184	905,961	4,403,695	3,531,501
Average (exc. City of London)			16,696	80,040	96,736	12,568	28,311	137,615	110,359
Merton Rank - All London			21/32	27/32	27/32	10/32	N/A	27/32	29/32
Merton Rank - Outer London			11/20	15/20	15/20	5/20	N/A	15/20	17/20
33	Inner	City of London Corporation	61,900	55,500	117,400	400	4,500	122,300	61,800
			596,177	2,616,773	3,212,950	402,584	910,461	4,525,995	3,593,301

MERTON: EARMARKED RESERVES
 DEPARTMENT:

e5 code	Name of Reserve	Opening balance 1 April 20__ £	Additions/ withdrawals during year £	Closing balance 31/3/20__ £	Is reserve needed to finance recurrent expenditure	Reason/ Purpose for which the reserve is held	Brief explanation of movements in year	How and when the reserve will be released	Process and timescale for review of the reserve (annual, Qtly by who?)
Signed by Manager		Signed by S151 Officer							
Date		Date							

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Committee: Financial Monitoring Task Group

Date: 4th April 2019

Wards: All

Subject: Learning from Lean reviews

Lead officer: Sophie Ellis (Assistant Director Customers, Policy & Improvement)

Lead member: Cllr Mark Allison

Contact officer: Edmund Wildish (Head of Continuous Improvement)

Recommendations:

A. Discuss and comment on the report

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1. This report sets out the background behind the use of Lean methodology in Merton, describes how the Service Improvement Programme is created, approved, and monitored, and provides some examples of learning from service improvement activities.

2 DETAILS

Background – Lean and its application in Merton

2.1. Originally developed by Toyota in the 1950s, Lean has long been embraced by a variety of private and public sector organisations. The fundamental principles behind Lean as a methodology are based on eliminating all forms of waste, and creating or increasing value to customers.

2.2. Following a detailed programme of work undertaken with Deloitte's in 2009, relating to business planning, transformation and improvement, Merton adopted Lean as its preferred service improvement methodology. Since then, in various guises, it has provided a framework for the organisation to encourage continuous improvement, as well a range of tools and techniques for use in specific reviews.

2.3. There are a large number of elements, tools and techniques that come under the umbrella term of 'Lean'. Merton has mainly focused on the following approach:

- Observation and study of the front-line to understand how work actually gets done
- Mapping the "as is" processes, with a particular emphasis on 'end-to-end' and the customer journey
- Identifying where processes are adding value, where they are necessary but not adding value (for example fulfilling legislative requirements), and where they are waste
- Developing improved "to be" processes
- Piloting and rolling out improvements via the Plan-Do-Check-Act model

- 2.4. Experience has demonstrated that taking a purist, textbook approach to Lean risks alienating staff and reduces their engagement with reviews. The council's approach to Lean – and to service improvement in general – has therefore adapted over the intervening years since 2009. A range of alternative service improvement tools are used where appropriate (such as Six Sigma, Service Redesign and Systems Thinking), to tailor the offer to the service's needs. At the same time, the aim is to reduce the amount of jargon or complicated concepts used, and to work with departments to embed any changes.
- 2.5. Currently, there are two Business Improvement Advisers (BIAs) who support managers to deliver service improvement. Merton's model is based on heads of service leading and ultimately being responsible for improvement in their areas, supported by the BIAs. In an attempt to embed a culture of continuous improvement in the organisation, training materials have been developed and published on the intranet, and managers are encouraged to be responsible for implementing improvements in their services.

Service Improvement in Merton today

- 2.6. The primary source for identifying a programme of lean and other service improvement works comes through the development of the Target Operating Model (TOM) documents – the council's long-term service planning process. As part of the TOMs, managers were asked to consider:
- the major processes in their services, when these were last reviewed, and where there may be opportunities for streamlining or improving them
 - the purpose of their services (from the perspective of the customer), and whether current processes help achieve this purpose
 - where there is demand on their services, if they understood why, and whether some of that demand might be preventable
- 2.7. The most recent TOMs were completed in September 2018. Potential lean reviews and other service improvement works were identified from these TOMs, combined with other requests or outstanding reviews, and validated and prioritised by Directors and their Departmental Management Teams (DMTs). After DMTs had signed off departmental requests, the Service Improvement Programme went to Merton Improvement Board (MIB) for overall prioritisation.
- 2.8. The categories that enabled prioritisation were:
- Whether the review would lead to income generation or deliver savings (and whether savings were part of the Medium Term Financial Strategy)
 - The level of impact or potential improvement for customers
 - The level of impact or potential improvement for staff
- 2.9. On a quarterly basis, DMTs and MIB are provided with updates on progress and given the opportunity to add, amend or re-prioritise their list of reviews. The feedback loop also provides an opportunity for the sharing of learning across services and departments, and ensuring that actions or recommendations for improvement are implemented.

Learning from Lean reviews and service improvement work

- 2.10. Learning and sharing of good practice has resulted from a wide variety of the lean reviews, service improvement work, and other continuous improvement activities. Some examples are described below.
- 2.11. **Blue Badges.** Following impending new legislation that will expand the Blue Badges scheme to people with 'hidden disabilities' (e.g. autism), a review was commissioned to identify how the service could adapt to cope with the likely increase applications, given that no additional resources are being made available. The review is still ongoing but a number of recommendations are already being piloted and evaluated on an ongoing basis.
- 2.12. **Streamlining Adolescent Panels.** Children's Social Care Services commissioned a review into the approach taken by the council (and our partners) to oversee children's issues, via the use of a range of Adolescent Panels. Many of the review's recommendations that were implemented – particularly around membership, length and frequency of meetings, and communication between panels – affected a number of different services across two departments, as well as impacting on partner organisations. They were also applicable more generally to how the department could run its meetings.
- 2.13. **Managing Public Spaces.** After completing an environmental enforcement process review for waste services, Environment & Regeneration DMT, commissioned additional work to better understand cross-divisional working for a range of services involved in managing public spaces. Workshops helped the service to identify a number of areas for improvement, which in turn were used to inform the department's TOMs.
- 2.14. **Early Years Digital Strategy Rapid Improvement Event.** To help the Early Years service think about their strategic technology needs, a short, focused, facilitated session was held to bring together service managers, staff and IT representatives. The outcomes from this session were shared with the wider department, which helped other services think in a more structured way about how technology could support their processes.
- 2.15. **Customer Contact Programme process mapping.** One of the BIAs was temporarily seconded to work on the Customer Contact Programme to assist with the creation of process maps and development of e-forms for a number of services, most notably leisure. The upskilled member of staff was able to share this learning in a number of future process mapping and requirements gathering exercises.
- 2.16. **Information Centre (IC) Boards refresh.** All services use IC Boards to display up-to-date service information, provide transparency about what is being delivered, and as a focal point for conversations about continuous improvement. The BIAs have developed guidance for teams to create an IC Board that works for them, as well as offering detailed sessions where managers have requested it (in particular for the IT and Public Spaces teams).
- 2.17. **Performance management.** Following a presentation to MIB on new ideas and a complementary approach to performance management, elements of

this approach are being piloted or adopted by officers responsible for performance management in Safer Merton, Adult Social Care, and Children, Schools & Families.

Next steps

- 2.18. Implementation of the Service Improvement Programme will continue to be monitored by DMTs and Merton Improvement Board – with best practice shared across services by the BIAs.
- 2.19. The training programme for managers is currently being refreshed, in order to increase the organisation's maturity in its approach to service improvement and enable managers to lead change themselves.
- 2.20. The organisation is looking to change and grow the offer in line with best practice and new techniques, including comparing ourselves with our peers through discussions at groups such as the Pan London Transformation Network.

3 ALTERNATIVE OPTIONS

- 3.1. Not applicable.

4 CONSULTATION UNDERTAKEN OR PROPOSED

- 4.1. Reviews have included consultation and engagement with residents, customer and service users, as part of evidence gathering and to understand the journey of the customer.

5 TIMETABLE

- 5.1. Not applicable.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 6.1. Responsibility for savings rests with the relevant department. However, reviews are used to assist services in delivering budgetary savings, efficiencies, productivity increases, or helping bring about income generation.

7 LEGAL AND STATUTORY IMPLICATIONS

- 7.1. Reviews are carried out mindful of the statutory frameworks that services have to adhere to. It is recognised that the most efficient approach according to Lean principles may not be appropriate in the context of legal requirements, and therefore recommendations are modified appropriately.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 8.1. Reviews are carried out mindful of equalities legislation and other community cohesion considerations. It is recognised that the most efficient approach according to lean principles may not be appropriate in the context of equalities requirements, and therefore recommendations are modified appropriately.

9 CRIME AND DISORDER IMPLICATIONS

- 9.1. Not applicable.

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

10.1. Not applicable.

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

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