

MINUTES OF THE PUBLIC ACCOUNTS SELECT COMMITTEE

Thursday, 16 November 2017 at 7.30 pm

PRESENT: Councillors Maja Hilton (Chair), Brenda Dacres, Amanda De Ryk, Carl Handley, Simon Hooks, Mark Ingleby, Roy Kennedy and Kevin Bonavia and

APOLOGIES: Councillors Chris Barnham and Paul Bell

ALSO PRESENT: Timothy Andrew (Scrutiny Manager), David Austin (Head of Corporate Resources), Robert Mellors (Finance Manager, Community Services and Adult Social Care), Barrie Neal (Head of Corporate Policy and Governance), Dave Richards (CYP Group Finance Manager), Janet Senior (Acting Chief Executive and Executive Director for Resources & Regeneration) and Selwyn Thompson (Head of Financial Services)

1. Minutes of the meeting held on 27 September 2017

- 1.1 **Resolved:** that the minutes of the meeting held on 27 September 2017 be agreed as an accurate record.

2. Declarations of interest

- 2.1 There were none.

3. Responses from Mayor and Cabinet

- 3.1 David Austin (Head of Corporate Resources) Janet Senior (Executive Director for Resources and Regeneration) and Selwyn Thompson (Head of Financial Services) responded to questions from the Committee, the following key points were noted:

- School balances were treated as part of the Council's cash balances but they were held for schools
- The internal advert for the new procurement and commercial services post had been published
- A meeting had been held with the Association of Public Service Excellence, further work would be carried out to determine how best the Council might make use of the organisation's services.

- 3.2 **Resolved:** that the response from Mayor and Cabinet be noted.

4. Lewisham Future Programme

- 4.1 David Austin introduced the report, the following key points were noted:

- The Council was on a journey of austerity, which began in 2010. This would last until 2020 and most likely it would continue into the mid-2020s because of the current direction being pursued by the Government.

- Not only was the financial position difficult, there was also a high level of uncertainty around policy, as noted in the medium term financial strategy in July.
- The potential uncertainties and pressures included: the Government's intention that local government should become self-financing; variations around the level of council tax funding and funding for adult social care as well as changes to the improved Better Care Fund and the risk of retrospective adjustments to the New Homes Bonus.
- Information was awaited about the plans for fair funding.
- There was a major programme of health and social care integration, which was liable to change rapidly.
- There were also restraints around borrowing, which might constrain some of what the Council could do.
- The ongoing welfare reforms and the roll out of universal credit also presented potential future issues.
- At the regional level there was the uncertainty around business rates pooling as well as the possible implications for London's economy of the UK's exit from the European Union as well as future changes to London's demographics.
- The savings target for 2018-19 was £22m and based on the projections in the medium term financial strategy the estimation was that £10m a year would be required after that.
- If savings were not made in one year, the Council had to use reserves to meet the gap, however – the savings still needed to be made in the following year.
- It was predicted that there would be a £13m overspend at the end of 2017-18 of which £7m was unachieved savings.
- Adding new savings proposals to an overspend and to unachieved savings was not feasible. The current plan was to consolidate the Council's position and to achieve the savings that had already been put forward in previous years.

4.2 David Austin, Janet Senior and Selwyn Thompson responded to questions from the Committee, the following key points were noted:

- The Council had used reserves to set a balanced budget for three years.
- There were a number of factors which would affect how long the Council could sustain itself whilst using reserves.
- The majority of the Council's existing reserves were allocated to specific commitments and projects. The Council should make it through next year using the reserves but beyond that it would become increasingly challenging.
- There might be difficult decisions to be made about the level of services that could be delivered.
- The current focus was on delivering the savings proposals that had been put forward and balancing the budget, however, the level of risks, uncertainties and pressures (as set out previously) remained and each could have a significant impact.
- Management attention remained focused on delivering savings.
- There were a number of reasons that savings proposals were not being achieved, in some instances savings proposals had been made but

increases in demand had negated the saving, in other areas there were issues with capacity or changes required as a result of consultation.

- There were some savings which were technically complicated to achieve.
- Work was carried out with service group managers and directors to identify where there were significant obstacles to achieving savings.
- There was a rigorous process to challenge services on delivering savings however, some of the savings proposals had also been reversed because it was realised that they were unachievable.
- To date more than £160m of savings had been brought before members and £153m had been delivered. Some proposals had been rejected. A lot had been learnt through this process about the councillors' priorities.

4.3 Councillor Bonavia (Cabinet Member for Resources) also addressed the Committee. It was noted that: the Council was half the size it was in 2010. Also, in equivalent terms, the Council's general fund had been cut by 63% over the same period.

4.4 Janet Senior and Selwyn Thompson responded to questions about saving proposal I13 (more efficient and effective finance processes) the following key points were noted:

- The Council did not routinely write cheques for the delivery of services. Officers could not recall a time at which the Council had run out of supplies due to problems with the procurement system.
- The Council had been using Oracle for 20 years. The proposal was to use additional functionality to streamline service delivery.
- The new solutions would not be put in place until officers were assured that they would work effectively.
- Options were being explored for the processing of invoices through Oracle using 'Isupplier'. LB Havering was already using this system so it was proven to be effective.
- The roll out of additional Oracle services would require a cultural change to the way in which officers worked.
- The transformation approach being taken by the Council was an integrated programme, which considered use of assets, changes to ways of working and the use of technology as well as staffing, training and change management.

4.5 David Austin and Janet Senior responded to questions about savings proposal I14 (loss of the police officer secondment), the following key points were noted:

- Civil prosecutions would still be pursued by the Council. In order to pursue criminal cases the Council would need to work with the local police, however, the majority of work undertaken at present related to the civil rather than criminal cases.
- There were resources across London (such as the counter fraud hub) that the Council could make use of. In a number of instances, such as housing, the powers for prosecution lay with the Council rather than the police. These had to be purchased on a case by case basis.

- Information about fraud cases was shared with partner organisations.

4.6 **Resolved:** that the report be noted. The Committee also agreed to thank officers for their work.

5. Management report

5.1 Barrie Neal (Head of Corporate Policy and Governance) introduced the management report and directed members to areas for management attention and the key sections of the report. In response to questions from the Committee, the following point was noted:

- Information would be available over time about the impact of the changes to waste and recycling services.

5.2 **Resolved:** that the report be noted.

6. Financial forecasts 2017-18

6.1 Selwyn Thompson introduced the report, the following key points were noted:

- The report presented the Council's financial position to September 2017, which was six months into the financial year.
- There was a significant budget pressure in children and young people's services.
- The costs of placements for looked after children were high as were salary related costs for children's social workers.
- There were pressures in adult services, environment and technology & change.
- The delay in the roll out of new arrangements for waste and recycling, as well as spending on fleet vehicles had created a budget pressure that should be managed down as the new arrangements and vehicles came in to service.
- It was hoped that savings could still be made from the expansion of the shared IT service.
- The Regeneration and Place division was overspending due to the underachievement of an income stream related to charges for utility companies for opening up highways.

6.2 Dave Richards (Group Finance Manager, Children and Young People), Janet Senior and Selwyn Thompson responded to questions from the Committee, the following key points were noted:

- There might be scope to increase the number of councils in the shared service but as the service became larger the governance arrangements might become more difficult. There might also be challenges for capacity and skills of the officers involved in the service.
- Lewisham was in an unusual position compared to other local authorities because majority of secondary schools in many other

authorities had become academies. This was why Lewisham's figures for school deficits looked out of line with other authorities.

- Improved disaster recovery provisions were included in the new arrangements for IT. The new technology being used by the Council made the system more robust.
- The numbers of agency staff were being reduced because they were more expensive than full-time staff. Work was ongoing to recruit fulltime staff to vacant positions.
- The methodology used to set aside the risk provision in the budget was based on a regular review of pressures in directorate spending.
- An amount to fund budget pressures was also held corporately.

Resolved: that the report be noted.

7. Mid-year treasury management review

7.1 David Austin introduced the report, the following key points were noted:

- The current treasury strategy was compliant and no changes were proposed.
- The benchmarking information from the Council's advisors on its investments indicated that it was in line with the London average.
- Interest rates remained low, which meant securing return on investment was difficult.
- There was a variation in the Council's borrowing figures related to borrowing for Lewisham Homes to ease temporary accommodation pressures. Otherwise, the Council's borrowing was where it was expected to be.
- There had also be a restructuring of a LOBO (Lender Option, Borrower Option) loan.
- Fifty percent of the Council's borrowing was made up of public and private sources the other half was made up of borrowing for private finance initiatives.
- Some of the capital spending programme was behind schedule, in particular there had been some delay in spending housing revenue account capital funds. This money had been allocated so it would still be spent.
- Treasury management practices in local government were being reviewed by CIPFA (Chartered Institute of Public Finance and Accountancy), which set the prudential code, as well as by the Department for Communities and Local Government, which was carrying out a consultation that closed in December- on the reporting of treasury decisions.
- Some authorities had been challenged on the level of borrowing they had undertaken for commercial schemes.
- The European MiFID2 (the second Markets in Financial Instruments Directive) would also have a regulatory impact.
- The purpose of the directive was to clarify whether investors were retailers or professionals. The Council would default to a retail position, which would limit the products that could be accessed and create new

burdens. Therefore, the Council would opt for professional status and officers were currently following the process for gaining approval.

7.2 David Austin and Janet Senior responded to questions from the Committee, the following key points were noted:

- Both budgets and reserves were means for the Council to spend.
- The treasury was the money that the Council held to back up spending through its budgets and reserves.
- The treasury was made up of investment of reserves and borrowing as well as the money that came in to the Council from council tax and revenue support grant from the government.
- The Council's cash balances could not evenly be equated with borrowing and investing because there was money held by the Council that had been committed and that which had been paid by suppliers.
- The Council adhered to the CIPFA financial code for investments, which prioritised investments in order of security, liquidity and return on investment.
- LOBO borrowing allowed lenders to vary the rates of interest being charged for loans, with options for borrowers to accept or reject the proposed revised rate of interest by repaying the entire loan.
- Some LOBOs had been referred to as 'toxic' because other variables had been built into the loans (including interest rates in derivatives). In some LOBOs lenders had exposed borrowers to the derivative risk. Lewisham did not have any loans with this higher level of risk built in.
- At the time they were taken out, LOBOs were the most effective mechanism for borrowing.
- Section 106 accounts were included in the treasury management accounts.
- Each PFI had a different effective interest rate.
- When the PFIs were set up, the Council received funding from the government towards the payment of the PFI interest in order to cover the capital costs.
- The revenue part of the PFI was met by funding allocated to schools from the schools budget but the Council also provided some funding to cover the remainder of the costs.
- It might appear as though schools were only paying for PFI running costs, but they were also paying capital costs.
- There were two loans to Lewisham Homes, which were being used for different purposes. Due to the rules around start aid, one loan had an added margin, the other did not.
- There had been some savings generated from better management of households in temporary accommodation, delivery of extra care schemes and building of new housing.
- The schools catering PFI in 1999 was focused on revenue expenditure. £4.5m was used to build kitchens in schools but the service element was larger.

7.3 **Resolved:** that the report be noted.

8. **Select Committee work programme**

8.1 The Committee discussed the work programme for the meeting on 20 December, the following key points were noted:

- Councillors sometimes had difficulty navigating the Council’s website and contacting officers by telephone. It would be helpful if there was a section in the complaints report about the difficulties people faced contacting the Council.
- There would be a single meeting focus on household budgets – reviewing data about households on middle incomes and the challenges they face as well as the potential implications for income generation and Council policy.
- It was also agreed that items on PFIs and asset management would be considered at the meeting.

8.2 **Resolved:** that the report be noted and the work programme for the Committee meeting on 20 December be agreed.

9. Referrals to Mayor and Cabinet

9.1 There were none.

The meeting ended at 9.30 pm

Chair:

Date:
