

MINUTES OF THE PUBLIC ACCOUNTS SELECT COMMITTEE

Tuesday, 14 July 2015 at 7.00 pm

PRESENT: Councillors Jamie Milne (Chair), Mark Ingleby (Vice-Chair), Abdeslam Amrani, Chris Barnham, Maja Hilton, Roy Kennedy, Jim Mallory and Crada Onuegbu and

APOLOGIES: Councillors Ami Ibitson and Helen Klier

ALSO PRESENT: David Austin (Head of Corporate Resources), Aktar Choudhury (Operational Director Planning & Regeneration) (LB Brent), Duncan Dewhurst (Head of Service Change and Technology), Alan Docksey (Head of Resources & Performance, CYP), Rob Holmans (Director of Regeneration and Asset Management), Mark Humphreys (Group Finance Manager, Customer Services), Martin Key (Operations Manager) (IP & E Ltd), Robert Mellors (Finance Manager, Community Services and Adult Social Care), Thiru Moolan (Interim Service Group Manager), Georgina Nunney (Principal Lawyer), Martin O'Brien (Sustainable Resources Group Manager), Barry Quirk (Chief Executive), Dave Richards (CYP Group Finance Manager), Janet Senior (Executive Director for Resources & Regeneration), Tim Smith (Finance and Commercial Director) (IP & E), Selwyn Thompson (Head of Financial Services) and Katie Wood (Scrutiny Manager)

1. Minutes of the meeting held on 27 May 2015

1.1 RESOLVED

That the minutes of the meeting held on the 27th May 2015 be agreed as an accurate record of proceedings and the Chair be authorised to sign them.

2. Declarations of interest

2.1 There were no declarations of interest.

3. Income Generation - evidence session 2

3.1 Katie Wood, Scrutiny Manager introduced the report to the committee and outlined that it highlighted good practice from other councils around income generation strategies and different models of working.

3.2 Councillor Milne, Chair of the Public Accounts Select Committee, welcomed witnesses from the London Borough (LB) of Brent and IP & E (a company wholly owned by Shropshire County Council) to the meeting.

3.3 Aktar Choudhury, LB Brent, gave a presentation to the committee, highlighting the following key points:

- The LB Brent had commissioned a thorough review of regulatory services looking at the full range of services, what was being done and why and how efficient they were. This was with the aim of

creating a savings target to make the service self-funding and with the aspiration of becoming a net contributor to the general fund.

- The focus was on generating more income, staff and the organisation becoming increasingly commercially aware, focussing on areas where there was most commercial potential.
- The LB Brent was involved in a number of shared services where there was a clear cost-benefit.
- Brent appointed consultants IP & E Ltd through a tendering process to help undertake the full review of regulatory services and the feedback was very frank looking at customer experiences and the strengths and weaknesses of service delivery.
- The LB Brent was currently considering a trading arm for building control. Their team was very successful, and they were already working with contractors to provide guidance across London with the relevant permissions from those boroughs. If they were to achieve “approved inspector” status they would be able to compete with the private sector when bidding for work.
- The LB Brent was looking to create articles and memorandum of associations which would be flexible enough to allow other service areas, for example pest control, to be added should the need arise.
- Other methods of streamlining costs included reanalysing management structures and the level of skills needed across work areas. For example, in the planning department it was much more cost effective for administration staff and junior planners to be doing the low-level and routine work with the higher paid senior planners working on the larger and potentially more profitable projects. Management structures needed to be studied very closely with analysis based on role breakdowns rather than just the title and grade of a post. Highly qualified professionals were effectively doing mundane tasks and there needed to be process redesign to improve capacity and resilience.

3.4 Tim Smith, Finance and Commercial Director, IP & E Ltd, and Martin Key, Operations Manager, IP & E Ltd/Shropshire Council gave a presentation to the committee highlighting the following key points:

- IP & E Ltd was a limited company wholly owned by Shropshire Council. It was set up as an alternative structure to outsourcing with all profit invested back into public services. They did not pay dividends to private individuals which was a key feature that appealed to public sector and third sector clients.
- The company was set-up using statutory powers in the Localism Act 2011 to enable profit to be generated by trading with a view to creating “public profit.”
- Commercialisation was at the heart of the company but whilst maintaining a public sector ethos and focus on customer experience.
- There were limitations within the contract to ensure that IP & E Ltd was only able to work in a way that was felt by Shropshire Council to be compatible with their own aims and objectives.
- The company did not be work in isolation and worked closely with Shropshire Council, sharing policy aims, objectives and priorities.

- There was a public sector ethos within the company and an emphasis on transferring front line staff. This was combined with a very strong customer focus based on fully evaluating needs and objectives.
- Shropshire Council had set up two styles of companies within the IP & E branding – a trading company and a limited “Teckal” company. Currently the trading company was dormant and all work was being conducted through the Teckal Company.
- The Teckal exemption enabled Shropshire Council to contract with the company in a way which enabled any contract award to be treated as “in house” and therefore not subject to the standard procurement processes. To qualify for Teckal exemption, a company must be wholly owned by public bodies including by the public body contracting with the company and the “essential part” of the company’s activities being undertaken for the members of the company. This “essential part” was being reduced from 90% to 80% following a European Directive and not to 20% as listed in paragraph 2.5 of Appendix B of the report to committee.
- Should the external demand for services start to impact on the minimum 80% council trading income, these services could be transferred to the ‘trading’ business arm thus preserving the Teckal exemption. This was the reason for setting up the two companies.
- The company was also able to trade successfully with private and public sector clients across Shropshire and beyond, including schools and other public bodies. IP & E Ltd’s not for profit nature appealed to other public sector companies as well as private individuals and companies as all profits return to the public sector for further investment in the services provided.
- Examples of services traded included: communications; business design; public health initiatives; business support and regulatory services; and schools traded services.
- For example, communications and media support was provided back to Shropshire Council but also to external customers and partner organisations such as the Police and the Fire Brigade.
- Within Adult Social Care the model allowed staff to reassess care packages in partnership with clients and carers to prioritise actual needs and eliminate unnecessary expenditure. Eligibility criteria had not been raised, but costs had been reduced by having a different focus on what the customer actually needed.
- Shropshire Council had become a unitary authority in 2009. Planning and Regulatory Services had faced significant savings pressures including £4 million taken out of front line services. Different models were assessed for continuing to provide these services to residents in the most cost-effective way. These included: staff mutuals; shared services; outsourcing; and a stand-alone trading company.
- There were challenges with a staff mutual in terms of staff motivation and relevant skill sets. Outsourcing was less appealing as there was often no cost saving involved and profits were going to private companies rather than being reinvested in the service and community.

- Setting up a trading company meant that there would be freedom to trade and generate a profit to be reinvested back into services. In 2014/15, business support and regulatory services functions within IP & E Ltd had £400,000 external trading income which was predicted to double by the end of 2015/16.
- The primary aims were to sell locally to the private sector or individual consumers but selling to other public sector organisations was also successful.
- For example a pest control contract had been won with a large public sector organisation. IP & E Ltd had been able to significantly undercut the previous contract with a private provider saving the client money, whilst still generating profit on the contract.
- Part of the model for success had been in changing the culture and leadership strategy within the organisation and amongst staff. Placing an additional focus on customer experience, quality and performance, in addition to commercialisation of staff and delivering a marketing plan with income targets.
- There had also been a reduction in tiers of management and a focus on front line delivery staff. Staff were focussed on partnership working and client liaison face to face, online and on the telephone.
- The State Aid rules were an important consideration in setting up a publicly funded body. There needed to be a transparent funding arrangement and a “true” profit in the trading of services or there could be potential for this to be considered as “State Aid” thus unfairly distorting the commercial market.
- Governance was an important issue and IP & E Ltd had an “open book” approach to ensure that Shropshire County Council were able to monitor all aspects of trading and accounts.
- Currently the company was generating a modest profit but it was seen as much more important - that setting it up - had protected services.

3.5 In the discussion that followed, the following key points were raised:

- The Grant Thornton Report “Spreading their wings – Building a successful local authority trading company” had cited Shropshire Council as a good practice case study.
- In terms of reducing costs in Adult Social Care, analysis of call centre patterns and behaviours were undertaken. Previously all related calls to the call centre had been put through to adult social care. This was costly and inefficient and through better understanding of the nature of calls a triage process was now being done. Call centre staff were being trained to answer additional queries and now 73% of calls were dealt with at first point of call or by being transferred to a relevant third sector organisation meaning significant cost reductions were being made.
- In the running of IP & E Ltd, tensions had arisen with the partnership with Shropshire Council but these generally had positive outcomes and ensured shared priorities. The contract output specifications and performance framework had been important when setting up the company but both partners felt that it was important not to make the

performance framework so comprehensive and onerous that it created a substantial additional workload as this would make the company less competitive and divert resources away from frontline services.

- In terms of the reassessments of service users for adult social care, there had been a different focus asking about the full details of existing care paths to ensure that every element added value and if it didn't then changing the path to better reflect needs and abilities of the client. Users and Carers were central to the discussion and this enabled improved care packages whilst reducing overall expenditure.
- At the LB of Brent, IP & E Ltd won the contract to do a thorough audit and review of regulatory services but were not employed as contractors to actually deliver the review's suggestions, as this was undertaken by LB Brent itself.
- Set up costs for IP & E Ltd had included the option of a loan from Shropshire Council of £500,000 and an agreement with the local authority to use some of the IT infrastructure and office accommodation on a charged basis.
- IP and E and its directors always had to act within the best interests of the company ensuring costs are covered and due diligence is carried out.

3.6 Selwyn Thompson, Head of Finance summarised the evidence from the London Boroughs of Camden and Hammersmith & Fulham from informal evidence gathering meetings, highlighting that additional information would be presented to the committee at their September meeting on the feasibility and parameters for adopting similar schemes in Lewisham. In the discussion that followed the following key points were raised:

- The PFI contracts on much of Lewisham's street furniture would raise additional challenges on securing additional income via a wireless concession contract. This would need to be looked into further and preliminary discussions held to assess the potential for this type of activity. Other street furniture could be considered but time was of the essence to ensure that the Council did not miss opportunities.
- LB Lewisham had very different patterns of footfall to LB Camden which could have implication on level of profit from such a concession. Further discussions with borough with a more similar footfall pattern to Lewisham would be beneficial.
- The presentation from Lyn Carpenter at Hammersmith & Fulham had been very interesting and the extent of the culture shift was impressive. A senior appointment of a specialist in commercialisation could be beneficial to ensure a focus on entrepreneurialism and customer satisfaction.
- Appendix D of the report listing other ideas Hammersmith and Fulham had listed for further consideration as part of their presentation. This provided interesting ideas and could be looked at again when considering the evidence from Lewisham officers at the next meeting of PAC.

3.7 **RESOLVED:**

- 1) That the report be noted.
- 2) That the witnesses from London Boroughs of Brent, Camden, Hammersmith and Fulham and from Shropshire County Council and IP & E limited be thanked for their informative presentations and evidence.
- 3) That a recommendation be suggested for the final report suggesting a senior strategic appointment of a commercialisation specialist to help engage staff and promote a culture shift within the Council.
- 4) That Appendix D be reconsidered, particularly whilst considering the evidence from Lewisham officers at the next meeting of Public Accounts Select Committee.

4. Financial Forecasts 2015/16

- 4.1 Following item 3, the Committee agreed to amend the Order of Business and the remaining agenda was taken in the following order: item 5, item 4, item 10, item 6, item 7, item 8, item 9 and item 11.
- 4.2 Selwyn Thompson, Head of Finance, presented the 2015/16 Financial Forecast to the committee, highlighting the following key points:
 - The current projections showed a predicted end of year overspend of £8.6 million against the directorates' net general fund.
 - The current forecasts projected overspends in three of the four directorates with Resources and Regeneration predicting an underspend of £1.1 million.
 - £3.2 million was being held corporately to manage risk and would be used to reduce an end of year overspend.
 - The forecast delivery of savings in 2015/16 showed that progress was being made in reducing expenditure across directorates although there was some variance from agreed savings across all directorates.
- 4.3 In the discussion that followed, the following key points were raised:
 - The Council was participating in a pan-London scheme intended to restrict the ability of landlords to charge excessive rents to boroughs procuring accommodation. There was recognition that this was a London-wide issue and it was important to collaborate rather than compete to ensure better negotiation of rates.
 - There was no complacency regarding predicted overspends. All budgets continued to be monitored closely with a focus on volatile areas such as the "Looked After Children" and "Leaving Care" budgets to ensure efficient delivery of services. Budgets were

monitored closely by Service Managers and Finance whilst working through savings, ensuring there was clarity and potential issues were flagged up promptly.

- The underspend in the Resources and Regeneration Department was mostly due to vacancies being kept open. This amount was predicted to increase in 2016/17.
- There was continued pressure within the schools budgets particularly in the secondary sector. Although the unit value per pupil was protected, the figure did not take into account inflationary pressures such as increasing salary costs. The Institute of Fiscal Studies predicted this as being an increase in costs of 7% to 2019/20.

4.4 **RESOLVED:**

That the report be noted.

5. **Financial Results for 2014/15**

5.1 Selwyn Thompson, Head of Finance, presented the report to committee and highlighted the following key points:

- The 2014/15 results had been presented to Mayor & Cabinet on 3 June 2015 and the Audit Panel on the 18 June 2015.
- The directorates' net general fund revenue budget was overspent by £9.1 million at the end of the year. This was brought down to £5.2 million after £3.9 million was allocated from the "risks and other pressures" reserves.
- It had been a challenging year and the Departmental Expenditure Panel had continued to run with the Corporate Expenditure Panel being introduced in October 2014.
- The main pressures had been within Children's Social Care Services, within which those with "No Recourse to Public Funds", including bed & breakfast, temporary accommodation and section 17 payments, were the most significant cost pressures.

5.2 In the discussion that followed, the following key points were raised:

- Changes in the National Policy on Housing Benefit created additional pressures on the Leaving Care Service budget.
- The Corporate Expenditure Panel would be continued into the New Year. This was particularly important as an overspend in the net general fund budget was currently being predicted.
- The cost of travel assistance, due to the increased use of taxis for the Partnerships and Targeted Services Budget had been high but this would be reducing due to an improved procurement deal regarding taxis.

5.3 **RESOLVED**

That the report be noted.

6. **Management Report**

6.1 **RESOLVED:**

That the management report be noted.

7. **Shared Services**

7.1 Duncan Dewhurst, Head of Service Change and Technology, and Barry Quirk, Chief Executive introduced this report to the committee. During the discussion, the following key points were made:

- Work was being carried out looking at a broad range of possibilities around shared services, including looking across different service areas such as adult social care.
- There was regular discussion with neighbouring authorities and others across London. When considering options around shared services, it was important to assess a broad range of parameters that could help define the success of any potential partnership.
- Members would be kept up to date on discussions and involved in analysing any proposals put forward.
- Reforms of numbers of elected members being carried out by the Local Government Boundary Commission were not consistent in terms of population numbers to elected member ratios across all regions.
- **Standing orders were suspended at 9.25pm.**
- Currently, shared services in the borough included working with the London Borough of Brent on a shared IT support team and a shared support team for the One Oracle invoicing and payments package.
- There was also a shared “Better Place” initiative with Southwark and Lambeth entitled “Pathways to Employment” which was a pilot project providing additional support to vulnerable groups on a path back to employment and better integration of local welfare provisions.
- In addition to this, there was a partnership project with Southwark and Lambeth on a shared pilot of Universal Support Services to trial elements of, and learn more about, local support services ahead of the introduction of Universal Credit. This involved a partnership between the three Local Authorities and Jobcentre Plus and included a triage, to identify vulnerable claimants and those with complex needs. There would then be targeted additional support offered.

7.2 **RESOLVED:**

That the report be noted.

8. Asset Management Update

8.1 Martin O'Brien, Asset Management Planning Manager presented the report to the committee noting the following key points:

- The report provided an update on the Council's approach to asset management and details of the new Strategic Asset Management Plan 2015-2020.

8.2 In the subsequent discussion, the following key points were raised:

- Community Services had been leading on consultations with relevant community groups on usage of properties.
- The register was now complete apart from some valuations still pending.
- The sub-areas approach to managing assets had been drawn up to align with schools planning areas and develop a vision for each sub-area. It did not however limit the scope of any suggestions at a ward level.

8.3 **RESOLVED:**

That the report be noted.

9. Select Committee work programme

9.1 Katie Wood, Scrutiny Manager, presented this report to the committee highlighting the items for the next meeting and asking committee members to provide any additional details they wished to be covered in the reports.

9.2 **RESOLVED:**

That the report and work programme be noted.

10. Medium term financial strategy

10.1 David Austin, Head of Corporate Resources, introduced the report to the committee highlighting the following key points:

- The strategy sets out the Council's financial plans over the next four years to 2019/20.
- The strategy forecasted a further reduction in resources of a minimum of £30 million in this time. This was set against indications that inflationary pressures including changes to national insurance, pay and price increases and changes in the borough's demographics would require additional spending of around £53 million over the same period, giving an estimated savings requirement of £83 million.
- In addition to this, the Chancellor of the Exchequer announced £2.6 billion in-year departmental savings and a total of £20 billion over the four year period. The details of exactly how these reductions in spending would impact local government would be set out in the Comprehensive Spending Review in the Autumn.

- Further updates on the Medium Term Financial Strategy would be provided to the committee in the Autumn as part of the report on savings proposals.
- Changes to the state pension provision will mean the Council will be liable to pay additional National Insurance contributions for staff who are in the Local Government Pension Scheme with an estimated cost to the general fund of £2 million per annum.

10.2 In the discussion that followed, the following point was raised:

- The models used allowed predictions of the financial impact on the general fund of pension contributions to be reasonably accurate and not likely to be subject to wide variations or volatility.

10.3 **RESOLVED:**

That the report be noted.

11. Referrals to Mayor and Cabinet

11.1 There were no referrals to Mayor and Cabinet.

The meeting ended at 9.45 pm

Chair:

Date:
