

# MINUTES OF THE PUBLIC ACCOUNTS SELECT COMMITTEE

Tuesday, 6 February 2018 at 7.30 pm

PRESENT: Councillors Maja Hilton (Chair), Chris Barnham (Vice-Chair), Brenda Dacres, Carl Handley, Simon Hooks, Mark Ingleby and Sophie McGeevor

APOLOGIES: Councillors Paul Bell and Amanda De Ryk

ALSO PRESENT: Sir Steve Bullock (Mayor), Councillor Kevin Bonavia (Cabinet Member Resources), Timothy Andrew (Scrutiny Manager), David Austin (Head of Corporate Resources), Dave Richards (CYP Group Finance Manager) and Janet Senior (Acting Chief Executive and Executive Director for Resources & Regeneration)

## 1. Minutes of the meeting held on 20 December 2017

- 1.1 The Chair noted that an officer update on the complaints process had been delayed but confirmation had been received that it would be provided.
- 1.2 Councillor Handley advised the Committee that the Housing Select Committee was following up on the comments it had received from Public Accounts Select Committee about the Lewisham Homesearch system.
- 1.3 **Resolved:** that the minutes of the meeting held on 20 December be agreed as an accurate record.

## 2. Declarations of interest

- 2.1 Councillor Handley declared a personal interest under item four as a governor at Watergate school.

## 3. Responses from Mayor and Cabinet

- 3.1 The Committee welcomed the Council's decision to work with the association of public service excellence (APSE).
- 3.2 Members noted the appointment of Katherine Nidd to the new procurement and commercialisation role and agreed that they would invite her to a future committee meeting.
- 3.3 **Resolved:** that the responses from Mayor and Cabinet be noted.

## 4. Annual budget 2018-19

- 4.1 Sir Steve Bullock (Mayor of Lewisham) addressed the Committee. The following key points were noted:
  - The budget report contained detailed technical information and was similar in scope to previous budget reports. However, it could also be viewed as the fourth in a series of budgets in the 2014-18 administration.

- The four year budget process had started in 2014 resulting from a large public consultation, which shared information about budget pressures and sought views about Council priorities.
- Some savings were proposed in the budget – but not at the scale that had been put forward previously.
- Some of the previously agreed savings were difficult to implement. Given that the savings programme had been ongoing for eight years, this was not surprising.
- The pause in savings proposals in this year's budget would allow the Council to focus on the delivery of those proposals that had been previously agreed.
- The scale of the savings programme had to be kept in mind. The budget for 2018-19 was around £233m against the updated (for demand and inflation) figure for the 2009-10 budget which would have been approximately £423m.
- Within the limits of decision making on Council tax- it had to be recognised that whilst it was a source of revenue it was also a potential burden on residents.
- Council tax made up about half of next year's budget, as opposed to a quarter ten years ago.
- The overspend in the 2017-18 budget was a cause for concern but he was satisfied that the Council had a robust financial base.
- It was recognised that the use of reserves was not sustainable, however Lewisham was in a stronger position than other authorities, which did not have underlying robust finances.
- All local authorities in the country faced an extremely difficult financial situation due to: reduced central government finance; limits on taxation and rising demand.
- All public services were under pressure but few were confronted with the complexity of the challenges faced by local government.

4.2 Councillor Kevin Bonavia (Cabinet Member for Resources) addressed the Committee, the following key points were noted:

- The Council was using all of the levers at its disposal to try to balance the budget. This included making some savings as well as putting up council tax.
- Up until three years ago the Government had offered councils a deal (which Lewisham, along with many other councils took) to provide funding in exchange for freezing council tax.
- The Government had removed the deal to freeze council tax in favour of allowing councils to increase tax in order to provide additional funds for essential services (particularly adult social care). It was believed that this was because the Government wanted to shift the focus for funding pressures to councils rather than recognising that there was an issue with the funding of social care nationally.
- Council tax was a significant source of revenue, in comparison with 2010 – an additional £11m of tax was being collected. This was not just because of rises but also because of the increased number of homes in the borough.
- The approach to council tax in the budget was similar to last year – the core element was being increased by the maximum amount (2.99%) which would provide approximately an additional £3m in revenue (based on the current 96% collection rate).
- The Council would also be implementing the social care precept – which allowed a 6% increase in council tax over a three year period.

- 4.3 Councillor Bonavia responded to questions from the Committee, the following key points were noted:
- Lewisham had a council tax reduction scheme to protect the most vulnerable residents.
  - The Council's policy was to decrease the reduction available for working age recipients of the scheme relative to the reduction in revenue support grant from government.
  - Last year this had resulted in an increase for working age recipients of the scheme of 33% (one of the highest increases in London).
  - This year, work had been done to consider a level of increase that would be revenue neutral. This was determined to be an increase of 25%.
  - An additional 100% relief had been brought in for care leavers. The Council was also asking other councils in London to consider implementing this relief for Lewisham care leavers living in their boroughs.
  - Officers had been tasked with considering other ways the Council could help the most vulnerable residents.
  - It was agreed that it was important to provide new homes in the borough for residents and that this required careful consideration to be given to development density and the availability of infrastructure.

- 4.4 David Austin (Head of Corporate Resources) introduced the report, the following key points were noted:
- There were some recent changes that would impact on the final levels of the income for the 2018-19 budget. Further information was awaited from government.
  - Each section the report provided a summary of the Council's financial position in this financial year and it set out the figures for the 2018-19 budget.
  - The main sections of the report were: capital, housing revenue account, dedicated schools grant, general fund, other sources of funding and treasury. He would introduce each in turn and take questions:

#### 4.5 Capital

- The 2017-18 capital programme had been reviewed (as noted in financial monitoring reports throughout the year) it provided £100m in funding for projects across the housing revenue account and general fund and included: highways, schools, housing and regeneration schemes (amongst others).
- The four year programme for the whole capital programme provided for £271m of funding. In 2018-19 there was £135m of funding available.
- It should be noted that the other years of the scheme were still subject to change depending on changing priorities.
- In 2018-19 - £63m was allocated to the general fund and £73 to the housing revenue account.
- Funding for the capital programme through the general fund would be provided from borrowing, grants and receipts. For the housing revenue account the funding would be provided from reserves. The Council had been building up reserves to fund the housing matters programme.
- Borrowing to fund development entailed additional costs for interest and charges that could be avoided by using reserves.

4.6 David Austin responded to a question from the Committee, the following key point was noted:

- The capital spending on housing was split: £40m on decent homes work and £32m on new building work.

#### 4.7 Housing revenue account

- The housing revenue account was on budget, though there had been some slippage in the capital programme in 17/18.
- The budget set the rent levels for 2018-19. Under government rules, rents had to be decreased by 1% a year up until 2020/21.
- Rents were previously being raised by the CPI measure of inflation plus 1% (this formula would have resulted in a 4% rent increase this year) so there was effectively a 5% shift in the anticipated level of income.
- The change made about a £1 difference a week on the average property for residents.
- The decrease in rents created a pressure in the longer term (30 year) business plan for the housing revenue account budget.
- The government had said that rent restrictions would be lifted, but it was not yet clear what this would entail.
- This created some constraint in the short-term and uncertainty in the 30 year business plan.
- The report also provided information about consultation with residents about charges (for garages, heating, lighting and other shared utilities).
- It should be noted that some of the charges (particularly for grounds maintenance) had increased – this was at the request of residents.

4.8 David Austin responded to questions from the Committee, the following key points were noted:

- The potential increase in rents (post 2021) would be dependent on inflation.
- The overall impact of rent decreases on the housing revenue account business plan would be about £240m. This would reduce the level of reserves. However, over the five year period the largest drain on the reserves would be the commitments to the capital fund.
- There was also an option to borrow to fund the capital programme (Lewisham currently had the capacity to borrow £64m) but the Council had committed to using reserves (as a more cost effective option) before borrowing.
- When borrowing the Council decided on the most effective source at the time. The public works loan board was not always cheapest.

4.9 Sir Steve Bullock responded to questions from the Committee, the following key points were noted:

- The 'pop up' housing in Ladywell was not funded from the housing revenue account capital fund. It was funded by prudential borrowing, offset by avoided costs.
- There was a perception that public works loan board was the cheapest way to borrow but this was not always true.

#### 4.10 Dedicated schools grant

- As highlighted in the financial monitoring through the year, a number of schools were facing pressures. However, overall the dedicated schools grant was in balance.

- In 2018-19 the dedicated schools grant would be just over £292m. Some of that funding went directly to academies and the remainder was distributed by the Council.
- In addition to the grant there would be an estimated £17m of pupil premium (dependent on numbers of students) available to spend.
- There continued to be a slight increase in primary school pupil numbers but there was a decline in numbers of enrolments to secondary schools.
- Over time any reduction in pupil numbers would put pressures on schools budgets as the majority of their income was per pupil.
- The schools forum had agreed the mechanism for capping schools PFI costs at 10%.
- There were some key risks which would require schools to manage their budgets very carefully. The real terms reduction in schools budgets was estimated at effectively 7% over two years.
- If schools didn't make savings and they didn't have reserves, this represented a risk to the Council through the provision of emergency loans.

4.11 David Austin, Janet Senior (Acting Chief Executive and Executive Director for Resources and Regeneration) and Dave Richards (Group Finance Manager, Children and Young People) responded to questions from the Committee. The following key points were noted:

- Secondary school enrolments were falling across London.
- The Government was consulting on a change such that, if a school became an academy, the Council was required to write-off any loan that was owed.
- Schools could choose to become academies at any time, there was no indication that any school made a choice to become an academy just to avoid their loan.
- Approximate figures could be provided about the loss in school funding over the period since 2010.
- The new banding system in respect of Special Education Needs funding for schools would provide slightly more money overall. There were one or two schools where there would be slight downward adjustments, these were likely to be relatively small.
- Work was carried out with schools to analyse risks and develop sustainable budget plans.
- Schools at risk were a priority for support from the Council.
- The monitoring of schools budgets had been tightened up. There was a clear escalation process in place to support schools in trouble.
- The principal pressure on schools budgets was caused by falling pupil numbers and schools budgets were not rising in line with costs.

#### 4.12 General fund

- In 2017-18 there was a forecast overspend of £12.9m. Any overspend at the end of the year would have to be drawn from reserves.
- In 2018-19 the general fund budget would be £241m. This included some growth as a result of Council tax collection work and growth in the base that had increased income slightly more than had been anticipated.
- There was a potential impact on the budget from pay inflation. It had been assumed that this would be 1% but there was an expectation that this might increase to 2%.
- The report detailed a range of risks and pressures facing the budget.

- Some changes had been made to base budgets to correct pressures that could not be achieved by savings (largely as a result of demand pressures).
- An additional saving had been added to the programme for 2018-19 relating to charges for the 'link line' service, which had been agreed for 2017-18 – but would be implemented next year.
- The anticipated gap in the budget for 2018-19 was £8.6m, £5m of which would be funded from the new homes bonus reserve and £3.6m from general reserves.
- Funding would need to continue for the implementation of the Council's transformation programme. This may need to be drawn from reserves.

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

- Changes to waste and recycling services had been expected to result in a budget saving. However, the technical requirements of implementing the new service meant the full savings would not be achieved and that additional funding had been required. It was still anticipated that savings could be made in future years.
- There had been some initial issues with the implementation of the new waste and recycling service but it had largely been a success.
- The new homes bonus was initially scheduled to be provided over six years in order to incentivise the delivery of new homes. The rules had been tightened and it had been reduced to four years. A minimum cap had also been introduced.
- The new homes bonus was triggered when a new home was registered for Council tax.
- Part of the funding that had been available for the new homes bonus had been moved to fund the improved better care fund.
- Overspends in directorate budgets were regularly and closely examined.
- There were pressures in some directorate budgets as a result of increased demand and complexity of demand (particularly in the Children and Young People Directorate).
- The Council could not cease providing crematorium services. Investment had been made at the Lewisham crematorium to enable it to provide a wider range of services.

4.14 Sir Steve Bullock addressed the Committee, the following key points were noted:

- The Government had created the new homes bonus to incentivise Conservative authorities to build more housing. However, Lewisham (and other Labour authorities) had been successful at attracting funding, which prompted Government to make the conditions of the bonus less favourable.
- There were areas of the country where there were empty houses because of a lack of demand. This was not the case in Lewisham.

4.15 Other sources of funding and treasury

- The better care fund and improved better care fund were provided for adult social care. It had to be negotiated and spent jointly with health. The intention of the joint funding was to ensure that services were working effectively together.
- There was also funding for public health, which was under pressure and reducing. Half of this funding was used for sexual health services.

- Initial indications from the new business rates pooling arrangements was that they would provide an additional £4m in funding for Lewisham. However, this was not certain until the arrangements were in place so no assumptions had been made for the 2018-19 budget.
- There had been little change to the treasury management plans since last year.

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

- Last year was the first year that the Council had put money into the budget (£10.6m) to fund transformation projects.
- The major corporate project taking place involved 'smarter working'. This included improvements to buildings as well as work to develop staff competencies and skills; the paperless office and the new customer relations management system.
- There were also projects taking place at a directorate level.
- Future plans for automation and analytics would streamline the delivery of Council services.
- Work was taking place to develop the Council's use of data to make the delivery of services more efficient, to tackle fraud and to help with future planning.
- Lewisham's LOBO (lender option, borrower option loans) were different from the loans that had been described as 'toxic loans' at some other authorities.

4.17 There was also a brief discussion about the delivery of the previously agreed savings proposals in children and adolescent mental health services budget, which had recently been discussed at the Children and Young People Select Committee, but which were not part of the budget report.

## 5. Select Committee work programme

- 5.1 The Committee discussed the work programme and agreed that the following items would be considered at its meeting on 21 March 2018:
- Income generation and commercialisation
  - Asset management
  - Management report
  - Financial forecasts
  - Audit panel update

## 6. Referrals to Mayor and Cabinet

6.1 There were none.

The meeting ended at 9.10 pm

Chair:

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Date:

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