

<b>MAYOR &amp; CABINET</b>			
<b>Report Title</b>	Response to comments of the Public Accounts Select Committee on the Financial Control Review		
<b>Key Decision</b>	No	<b>Item No.</b>	
<b>Ward</b>	All		
<b>Contributors</b>	Acting Chief Finance Officer		
<b>Class</b>	Part 1	<b>Date:</b>	24 April 2019

## 1. Purpose

- 1.1. To provide Mayor & Cabinet (M&C) with a response to the comments of the Public Accounts Select Committee (PASC) in respect of the External Finance Review conducted in 2018.

## 2. Executive Summary

- 2.1. The report provides an update on the actions completed, in progress, and planned in response to the specific recommendations made in the Finance Review.
- 2.2. Progress to date has been positive and work continues as the Council continues to juggle the financial challenges of delivering the ambitions of the Corporate Strategy within the constraints of limited and declining resources.

## 3. Recommendations

- 3.1. M&C are asked to note this report and forward the response to the PASC.

## 4. Policy Context

- 4.1. The Council has set out its corporate priorities in "Corporate Strategy 2018-2022". They are:
  - Open Lewisham: Lewisham is a welcoming place of safety for all where we celebrate the diversity that strengthens us.
  - Tackling the housing crisis: Everyone has a decent home that is secure and affordable.
  - Giving children and young people the best start in life: Every child has access to an outstanding and inspiring education and is given the support they need to keep them safe, well and able to achieve their full potential.
  - Building an inclusive local economy: Everyone can access high quality job opportunities, with decent pay and security in our thriving and inclusive local economy.

- Delivering and defending: health, social care and support: Ensuring everyone received the health, mental health, social care and support services they need.
  - Making Lewisham greener: Everyone enjoys our green spaces and benefits from a healthy environment as we work to protect and improve our local environment.
  - Building safer communities: Every resident feels safe and secure living here as we work together towards a borough free from the fear of crime.
- 4.2. To ensure effective financial control continues to be a characteristic of the Council, the actions in this report will assist officers and members as they work on delivering the corporate priorities.

## **5. Background**

- 5.1. On Thursday 20 December, the PASC considered an officer report on the External Finance Review which had concluded in October 2018. PASC comments were received by M&C on the 6 February 2019 and officers were asked to provide a response to M&C on the 24 April 2019. The remainder of this report is that response.
- 5.2. PASC resolved to advise Mayor and Cabinet of the following:
- The Committee welcomes the financial control review. It recommends that Mayor and Cabinet should give it careful consideration before seeking detailed responses on each of the issues raised, including: the finances of children and young people's services; adult social care; the housing revenue account; health services; income generation; IT and the general culture of monitoring at the Council.
  - The Committee also requests that the response return to the Committee with additional clarification around expenditure and accounting between the housing revenue account and the general fund.

## **6. Action Plan Update and Response to PASC**

- 6.1. The update in respect of the first comment from PASC is covered in Appendix A presented with this report. This takes the original action plan as reported and adds commentary on progress with each. Overall progress to date has been positive and the work continues in line with the timeframes identified.
- 6.2. In addition to the above, PASC requested clarification around expenditure and accounting between the HRA (HRA) and General Fund. This was in the context of the specific finding raised at 14 e) of the external report which stated:
- There do not appear to be pressures on the Housing Revenue Account (HRA) to find economies, with additional investment potentially benefitting the General Fund.
- 6.3. The original officer response did not agree this recommendation due to the HRA ring-fence accounting rules and concern the implication of agreeing the finding could be taken as finding economies in the HRA to support the General Fund.
- 6.4. There are clear accounting rules on the ring-fenced nature of the HRA. The keeping of the HRA is governed by Schedule 4 of the Local Government and Housing Act 1989. Schedule 4 principally lists the credits to the account (Part I) and the debits (Part II).

Expenditure and income relating to property listed in Section 74 (1) of the 1989 Act must be accounted for in the HRA.

- 6.5. Councils must follow “proper practices” as defined in Section 21 of the Local Government Act 2003, including Regulations and Guidance made thereunder. Regulation 31 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 stipulates that the accounting practices set out in the Code of Practice on Local Authority Accounting in the United Kingdom published by the Chartered Institute of Public Finance and Accountancy are “proper practices”.
- 6.6. Notwithstanding the above, the officer response in November identified a number of areas where Council services work in collaboration to the benefit of both the General Fund and the HRA. This is particularly relevant in the context of the affordable housing supply challenge across London, recognised by the Lewisham Corporate Strategy priority: Tackling the housing crisis. These areas of work are added to here and include:
- Lewisham Homes are working as the development agent with the regeneration and planning teams to bring forward the building of more social housing under this administration’s target to see 1,000 additional social homes in the Borough.
  - The HRA reserves are identified for maintaining and improving existing stock (having just completed over £125m of Decent Homes work) and to support the development (see the £37m GLA bid recently agreed) of new homes. These homes will provide stable and secure accommodation to families, thereby hopefully making them less likely to need other support services and ensuring they are able to play their full economic and social part in the community and life of the Borough.
  - The Council has also made loans to Lewisham Homes to secure more temporary accommodation (over 115 properties to date) which are used to home individual and family asylum seekers and those at risk of homelessness. Presenting Lewisham in this open manner helps respect and strengthen the diversity and depth of the communities in the borough and reduce the call on the General Fund for expensive nightly paid accommodation.
  - Also, as acknowledged in their 2017/18 annual report, Lewisham Homes have taken on and continue to work with the Council to operate a range of services that benefit both their residents, the Council and wider communities. For example; caretaking for independent living, managing hostels and temporary accommodation, grounds maintenance, bulky waste collection, and the operation of community centres.
- 6.7. The Council, in cooperation with Lewisham Homes as its wholly owned Arms Length Management Organisation (ALMO) and within the permitted accounting rules, will continue to work together to identify efficiencies and improve services to the benefit of residents and the community.

## **7. Legal Implications**

- 7.1. There are no legal implications arising directly from this report.

## **8. Financial Implications**

- 8.1. Although the findings of the original report identify areas for improvement in the Council's financial processes, there are no financial implications arising directly from this report. The actions taken will change the processes with the resulting reports and decisions being brought forward including all relevant and necessary financial information to support them.

## **9. Equalities Implications**

- 9.1. The Equality Act 2010 (the Act) introduced a public sector equality duty (the equality duty or the duty). It covers the following protected characteristics: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.
- 9.2. In summary, the Council must, in the exercise of its functions, have due regard to the need to:
- eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
  - advance equality of opportunity between people who share a protected characteristic and those who do not.
  - foster good relations between people who share a protected characteristic and those who do not.
- 9.3. No equalities implications have been identified arising directly from this report.

## **10. Crime & Disorder Implications**

- 10.1. There are no crime and disorder implications arising directly from this report.

## **11. Environmental Implications**

- 11.1. There are no environmental implications arising directly from this report.

## **12. Appendices**

- 12.1. Appendix A – External Finance Review updated action plan, April 2019.

## **13. Background Papers**

- 13.1. Are available on the Council's website as follows
- Report to PASC of 20 November 2018
  - Report to M&C of 6 February 2019
- 13.2. If there are any queries on this report please contact David Austin, Acting Chief Finance Officer on 020 8314 9114 or at [david.austin@lewisham.gov.uk](mailto:david.austin@lewisham.gov.uk)

**APPENDIX A: ACTION PLAN in response to Financial Control Review – November 2018 / updated April 2019**

Report Ref	Finding / Recommendation	Management Comment and Action	By when	By Whom	April 2019 update
	<b>Medium Term Financial Plan</b>				
10 a)	The budget book for 2018/19 was not produced until June, three months after the start of the financial year.	Agreed Publish the budget book within two weeks of the start of the financial year (mid-April) following the budget being set by Council in late February and the Cash Limits being loaded for budget holders in March.	15/04/2019	Head of Corporate Resources	On track The budget book is being finalised and will be published on the Council's website in April. Furthermore it will include detail down to the divisional level, previously only to the service level, to support greater understanding of the Council's budgets.
10 b)	The Medium Term Financial Strategy (MTFS) report included a lot of Treasury and Capital detail which was a distraction.	Agreed This was a once off as a consequence of the new prudential code requirements for 2019/20 and it is accepted would have been better as a separate report. This will not be repeated.	30/06/2019	Head of Corporate Resources	On track The new capital strategy was reported as part of the Council's Budget in February 2019 and incorporated there. It will not form part of the MTFS in 2019.
10 c)	The Medium Term Financial Strategy (MTFS) summary of the overall financial position was not presented early in the report.	Agreed The financial summary will be presented in the Executive Summary for the next MTFS report.	30/06/2019	Head of Corporate Resources	On track This is a presentational point and will be addressed as part of the MTFS being brought forward in June 2019.
10 d)	The Medium Term Financial Strategy (MTFS) had no approved savings for future years and was only looking two years ahead, rather than a rolling three year view.	Agreed The 2018 MTFS fell between a new administration in May and the Comprehensive Spending Review (CSR) for June 2019 which impacted the flow of savings proposals.	30/06/2019	Head of Corporate Resources	On track The Council's funding position continues to be challenging, made more so by the lack of detail on the government's plans and timetable for the Comprehensive Spending Review, Fair Funding Review and Business Rates Retention changes.

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		Going forward a rolling three year approach will be presented, as in previous years, recognising that the plans for the first year will be firmer and more detailed than those for later years.			The Council is expecting numbers for 2019/20 at the earliest in December 2019 to set the budget in February 2020. Any forecasts for 2020/21 and future years in the MTFS will therefore need to be cautious and heavily caveated.
10 e)	The Medium Term Financial Strategy (MTFS) does not show how the Council intends to apply balances and reserves to balance the budget and the impact for the amounts remaining are not clearly identified.	Agreed This reflects a similar comment for the first time from the external auditors in 2018/19. More information on the use of reserves is being incorporated into financial reporting, including the MTFS and Cuts reports going forward, rather than just the Budget.	30/06/2019	Head of Corporate Resources	Ongoing Members and Officers have engaged regularly and extensively in various forum over the past six months discussing the actions required to set the Budget and the implications of overspending, cuts and use of reserves. In addition to the work of the Cabinet, PASC and M&C, officers are setting up quarterly sessions in 2019/20 for all Members to continue this dialogue.
10 f)	The Medium Term Financial Strategy (MTFS) should be produced by early June to give more time to assess and approve savings options which should be completed by Christmas each year.	Agreed The 2018 MTFS followed the elections in May so the annual business was a little later than usual. However, the savings proposals are on track and going to M&C in November, meeting the Christmas deadline suggested. Going forward the MTFS will be prepared for June.	30/06/2019	Head of Corporate Resources	On track Subject to the comments noted for above 10d) and the possible impacts of purdah on Committee business through April and May, this is the plan with the report published in the first week of June for consideration at PASC on the 16 June and at M&C on the 26 June.
	<b>Budget Process and Content</b>				

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11	Greater use of Officer and joint Officer / Member Star Chamber meetings is vital to ensure thorough review of proposals to assess the likelihood of achievement.	Agreed The Star Chamber process was re-introduced in 2018 and will continue, starting earlier, for the 2019 round.	30/07/2019	Head of Corporate Resources	On track The EMT are holding a half-day session on the 17 April to start the officer process to identifying further cuts. This will be followed by Star Chambers with Cabinet, building on the work begun in 2018.
12	Savings proposals need to be specific rather than general (e.g. not allowing for inflation) to avoid budgets becoming misaligned.	Agreed This is a sound principle and one that the savings approach of the Council follows. Any generalised savings will be a minority of the total being sought and carefully monitored. No such savings are proposed for 2019/20.	21/11/2018	Head of Corporate Resources	Completed The cuts for the 2019/20 budget were received by M&C in November 2018. All of the cuts were specific. This agreed £9m of cuts for 2019/20, £9m of cuts for 2020/21, and deferred £2m of cuts subject to further working being undertaken to potentially be reconsidered for 2020/21. As reported in the February Budget report this leaves a gap of £12m for 2020/21.
13 (i)	A realistic budget needs to be set initially for Children's services which will enable an approved budget to be managed, with savings if necessary, in the medium term. The short term impact on reserves will need to be recognised.	Agreed Action has been taken in October 2018 to inject a further £6m into the Children's services budget for placements and a review of the staffing structures and costs is underway. This will facilitate an amended and realistic budget to be set for 2019/20, along with the full impact on the Council's reserves set out.	01/03/2019	Head of Corporate Resources	Completed This was done as part of the budget setting for 2019/20 and set out in the Budget report. The service, through a combination of growth in their base budget and use of once off reserves, has been set a budget for 2019/20 at the same level of spend in 2018/19. This builds on the evaluation of staffing and placement costs being tracked by the CYP Improvement Board. The use of once off monies to support this service pending the impact of improvement plans will be kept under review.
13 (ii)	Service information (financial and non-financial, so budget, staffing	Agreed			

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	and activity) available both within the Directorates and Corporately is weak and inconsistent, in particular in CYP. Review meetings need to be in place to assess progress with a group of officers and members providing oversight.	<ol style="list-style-type: none"> <li>1) This is the subject of the Executive Management team's focus on the need for change – culture, systems and processes – and deep dive budget reviews going forward.</li> <li>2) An improvement plan and Board to conduct regular reviews. The Board is chaired by the lead Cabinet Member for CYP.</li> <li>3) In addition, monthly Children finance meetings are held by the Chief Executive.</li> </ol>	<p>Quarterly</p> <p>Two weekly</p> <p>Monthly</p>	<p>Chief Executive</p> <p>Exec. Dir. for CYP / Cabinet Member</p> <p>Chief Executive</p>	<p>Ongoing</p> <p>EMT have adopted a new performance report of 60 indicators for 2019/20 to support the new Corporate Strategy. They will also be leading on the budget challenges starting on the 17 April, followed by Star Chamber sessions.</p> <p>Ongoing</p> <p>The CYP Improvement Board, Chaired by the lead Cabinet Members continues to meet, focused on agreed service improvement actions including budgets.</p> <p>Ongoing</p> <p>The lead Cabinet members for Finance and CYP meeting with the Chief Executive to review the CYP budget position.</p>
14 a)	The Council is seeking to maximise income but does not always reflect the full cost of services as central overheads are not recharged to service areas.	<p>Agreed</p> <p>Once the Oracle Cloud system is settled in, Finance with the support of the Commercial and Procurement team will review the corporate approach to overheads and memorandum trading accounts.</p>	31/03/2018	Head of Financial Services	<p>Delayed to September 2019</p> <p>This remains the intention, as discussed at PASC in March 2019. However, the Oracle team are currently focused on the successful implementation of the payroll and HR modules for Council and Schools staff in the period April to June 2019.</p> <p>The finance work on introducing trading accounts is therefore delayed to September.</p>
14 b)	A more transparent and regular update on reserves is needed, at least until the Council's budget is balanced.	<p>Agreed</p> <p>See response to 10 e) above</p>			As above at 10 e)



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14 c)	Staff number budgets (Establishment) are not currently in place, putting the financial forecasting at risk.	Agreed The Oracle Cloud HR and Payroll implementation, due in 2018/19, will address this recommendation.	31/05/2019	Head of Financial Services	On track The implementation of payroll and HR in Oracle is well advanced, as reported to the Audit Panel in March 2019. The timetable for the payrolls for Council and Schools staff are set to go live in May.
14 e)	There do not appear to be pressures on the Housing Revenue Account (HRA) to find economies, with additional investment potentially benefitting the General Fund.	Not Agreed The HRA is being managed to support the development of more social housing, a priority for this administration. The reserves are identified and committed for development (see the GLA bid recently agreed). The Council has also made loans to Lewisham Homes to secure more temporary accommodation and reduce General Fund risk.			This is discussed more fully in the main response to M&C. The HRA and General Fund are subject to specific accounting rules with which the Council must comply and are audited against. One of the areas of strategic focus for the Council, set out in the Corporate Strategy, is to tackle the challenges of housing supply in the Borough. This focus, in particular the new build programme that is being developed, will represent significant investment from both the HRA and General Fund going forward.
14 f)	The Capital Programme should be amended to invest more in projects that generate income for the Council.	Agreed As noted at 14 e) this is being done in conjunction with the treasury strategy. The cuts for 2019/20 include a number of such proposals (e.g. investment property, more temporary accommodation, trade waste, bereavement services), and Private Rented Sector (PRS) developments	Done	See 2019/20 cuts proposals.	Completed The Council is already making good progress in this regard as reported in previous cuts rounds and regular reports to PASC. This work is continuing with scrutiny from PASC, currently focused on a review of Environmental Services being undertaken with the Association of Public Sector Excellence (APSE).

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		and the regeneration of Catford are in progress.			
14 g)	The Council's IT capability is well below what is needed, inhibiting performance, financial accuracy and the ability to manage effectively.	Agreed A full review of the Council's IT infrastructure, governance, and operational arrangements has been conducted over the summer. Investments in security, resilience and functionality of the corporate systems (e.g. network, website, casework, Share Point) are underway. An Acting Asst. Dir. has been appointed and recruitment for a permanent lead is being advertised. Work on the children and adult instances of Liquid Logic, to include the financial interface (Controcc) has been commissioned and started with the early help module in Children's (see 13 ii above). The corporate digital transformation board is in place to monitor progress, chaired by the acting Chief Executive.	Monthly	Chief Executive and Exec. Dir. CUS.	Ongoing Members appointed a new Director for IT and Digital Strategy on the 1 March. An action plan in response to the 'except for' governance of the transformation work value for money opinion qualification has been prepared and reported to the Audit Panel. EMT have now taken the overall lead on change and their work programme for 2019/20 includes six weekly sessions to focus on this, supported by a portfolio programme office now being established. At the more operational level, through the work of the Shared Service with Brent and Southwark, the performance of the Council's corporate systems show they are more stable, secure, responsive, and available now. The most recent developments include the successful deployment of the new CRM and website. The focus is now on the recognised improvements needed to the key line of business systems, in particular those for social care.
	<b>Monitoring</b>				
15	A clearer explanation of 1) what action is being taken to recover overspends, and 2) why savings options are not being achieved	Agreed The financial monitoring reports is being improved and strengthened to answer these	31/03/2019	Head of Financial Services	On track The monitoring report was improved in the second half of 2018/19, in particular for CYP and cuts monitoring, to ensure trends were

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	and by when they will be achieved is needed.	challenges. It will include more detail on progress with savings and a fuller account of the forecasts with reference to the underlying financial commitments (on staff and spend) compared to budget, compared to activity/caseload trends, to help underpin the detailed management assumptions and actions required.			identified and actions tracked. This includes more detail on cost drivers aligning activity to spend. A review of the monitoring report is in progress to do the same for the main cost drivers in each Directorate to enhance monitoring in 2019/20 and introduce trend forecasting. This will be effective from the first report in May 2019.
16 (i)	Separate review meetings, particularly on the larger more volatile budgets should be considered	Agreed This has been recognised – see action for 13 (ii) 1) above.			See above.
16 (ii)	The £100 DEP/CEP process should be lifted as no longer particularly effective	Agreed This is agreed with the focus to be on a Corporate Permission to Recruitment process to replace it, pending the establishment controls in Oracle Cloud.	31/11/2018	Head of Corporate Resources	Completed DEP/CEP lifted for non-staffing spend in December 2018
17	The reduced quality and quantity of financial advice and assistance available to the organisation may have gone too far.	Agreed Finance review, as part of operating model and business process update to align with Oracle Cloud capabilities, to be conducted to support service reorganisation in 2019/20.	31/03/2018	Head of Corporate Resources	In progress but delayed to September 2019 This remains the intention. However, the Oracle team are currently focused on the successful implementation of the payroll and HR modules for Council and Schools staff in the period April to June 2019. The work on changing finance operating practices and processes will follow with the main changes later in 2019/20.

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	<b>Internal Audit</b>				
18	Evidence of lack of compliance and accountability from the failure of managers to implement agreed recommendations to agreed timescales.	Agreed This is the cultural element that aligns with the IT transformation work noted at 14 g) above. The change agenda is being reset by the acting Chief Exec., noting that cultural change will take two to three years to embed.	Agenda by 31/03/2019 for a three year plan	Chief Executive / Head of HR & OD	In progress Staff survey concluded in November 2018 and Teams and DMT working on actions to take forward. Leadership event held in March 2019 to consider behaviours and better working practices. Report to apply apprenticeship level to support development of management leadership skills set for M&C in May 2019. Competency framework being reviewed to redefine leadership behaviours the 'Lewisham Way' cultural framework, to be concluded by July 2019. EMT recognises that continued improvement against the backdrop of austerity presents an ongoing challenge to the organisation that will be helped by sharing a clearer vision and exercising effective governance, including grip, control, and focus on activity. EMT's revised regular work programme puts this at its centre to assist with setting the right 'tone at the top'.
	<b>Financial Control and Systems</b>				
19	Lack of quality and reliability of information systems	Agreed See action for 14 g) above			See above.
20	A systematic methodology is needed to support improved frequency and depth of monitoring, aligned to risk and to	Agreed See action for 15) above			See above.

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	ensure improvement actions are not lost.				
21	The cultural issue of personal accountability from concerns with staff failing to carry out their roles effectively and on a timely basis should be reflected upon.	Agreed See action for 18) above			See above.

**Conclusion**

The report concludes with five high level points prioritising the detail covered in the actions above. They are:

- 1) Establishing a realistic budget for children services;
- 2) Seeing through the overhaul of departmental and corporate information systems;
- 3) Ensuring that savings included in the budget plans are realistic, both in terms of quantity and timescales;
- 4) Assessing whether there are cultural issues regarding staff accountability which affects performance; and
- 5) Adopting a three year rolling plan with growth, savings, and use of reserves assessed.

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