

# MINUTES OF THE PUBLIC ACCOUNTS SELECT COMMITTEE

Thursday, 20 December 2018 at 7.00 pm

PRESENT: Councillors Jim Mallory (Chair), Louise Krupski (Vice-Chair), Abdeslam Amrani, Patrick Codd, Alan Hall, Mark Ingleby, Paul Maslin and Joan Millbank

ALSO PRESENT: Councillor John Muldoon, Councillor Amanda De Ryk (Cabinet Member for Finance, Skills and Jobs (job share)), Timothy Andrew (Scrutiny Manager), David Austin (Head of Corporate Resources), Mala Dadlani (Group Finance Manager, Children and Young People), Lynne Farrow (Group Finance Manager, Customer Services), John Johnstone (Group Finance Manager, Resources and Regeneration), Katharine Nidd (Strategic Procurement and Commercial Services Manager), Selwyn Thompson (Head of Financial Services) and Natasha Valladares (Executive Advisor)

## 1. Minutes of the meeting held on 7 November 2018

- 1.1 The Committee discussed the minutes of the meeting held on 7 November 2019, the following key points were noted:
- The update on information requested at the last meeting relating to adult social care had arrived too late for the Committee to give it full consideration.
  - The response to the Committee's comments on children's social care (as a result of the Committee referral at its 25 September meeting) was awaited from Mayor and Cabinet.
- 1.2 **Resolved:** that the minutes of the meeting held on 7 November be agreed as an accurate record.

## 2. Declarations of interest

- Cllr Ingleby declared a non-prejudicial interest as a Director of Lewisham Homes in relation to item five.
- Cllr Hall declared a non-prejudicial interest as a contributor to item four and a non-prejudicial interest in relation to item seven as a Member of the London Cooperative Council.
- Cllr Mallory declared a non-prejudicial interest in relation to item five as the Chair of the Pupil Referral Unit.

## 3. Responses from Mayor and Cabinet

- 3.1 There were none.

## 7. Income generation update

The agenda was varied in order to take this item first.

- 7.1 Katherine Nidd (Strategic Procurement and Commercial Services Manager) introduced the report. The following key points were noted:
- The paper included an update on key pieces of work to date. The Committee's thoughts were also sought on the income generation strategy.

- The three year strategy was designed to build good quality sustainable practices into Council ways of working. The development of good practice would provide a solid foundation for more entrepreneurial ways of working.
- The strategy was also designed to establish quality systems and processes and it was supported by an updated charging policy. A new fees and charges report was also in development which would detail the comprehensive review that was being carried out across the Council.
- Further work would take place to develop the Council approach to introducing a commercial and entrepreneurial culture.
- The Council's approach to income generation and commercialisation would only be sustainable if the Council also sought to develop an entrepreneurial culture, in order to support officers to give full consideration to the costs of delivering services and opportunities for commercialisation as well as a robust and consistent framework for developing, assessing and evaluating new income initiatives.

7.2 Katherine Nidd responded to questions from the Committee, the following key points were noted:

- Lots of the Council's services were statutory and the level of charging was therefore set nationally and could not be altered locally. A number of others were discretionary fees and charges which could only be charged for to fully recover costs. The areas with the most opportunities for income generation were those areas in which services could be traded as commercial activities. As long as there was sufficient demand for commercial services and the market would accept the price then the Council could gain income.
- The Association of Public Service Excellence (APSE) had been carrying out an income generation review in the environmental services division. The approach taken and the lessons learned from the review could be used in other areas of the Council.
- The schools service level agreement had been closely reviewed in recent years and officers had developed a more commercial mindset about how to develop and market services for schools. More work was being carried out to maximise the benefits of this work and to ensure that full cost models had been developed for each service traded.
- The income generation strategy had been developed to ensure that ownership for activity was distributed to services across the Council, but that oversight and governance was held more centrally.
- There would be named individuals responsible for activities in the fees and charges review.
- Consideration was being given to the future resourcing of the corporate support for strategic procurement and commercial services work. The roles of the officers working in this area might have to change as the work become more embedded across the Council.
- The Council joined the CIPFA benchmarking club in October. Figures provided in the report were from last year (before Lewisham was a member) in future the figures would include Lewisham and these would be reported to the Committee.
- Just having benchmarking figures did not necessarily provide good information because the ways in which Councils provided information varied. There were also considerable regional variations.

- Processes had been put in place to consistently review proposals for future income generation and commercialisation projects, these formed part of the strategy.
- The income generation board had cross directorate representation, which ensured coordination of activities across the Council.
- All of the proposals brought forward would first consider the statutory framework for the delivery of services as well as the potential customer base for any service and the Council's other policies and wider strategies.
- There was a short form business case process for smaller scale projects and initiatives. The income generation board process was also adaptable (as required), even though the board was the single route via which new projects would initially be assessed.
- There were not income generation targets for fees and charges but work was taking place to review how services might increase their customer base.
- For new ideas, the business case process would ensure that testing would be carried out in order to assess what potential there was to gain income.
- The Council's renewed focus on insourcing might provide opportunities for sharing services with other public bodies.

7.3 In the Committee's discussions the following key points were also noted:

- Members were concerned about the cyclical nature of the work on income generation and commercialisation at the Council and were worried that the current enthusiasm and effort for work at the Council might be lost should there be a change of staffing arrangements.
- The Committee highlighted the need for meaningful income targets.
- Members noted the perception in Lewisham's communities about charges for services in addition to the cost (and burden) of Council tax.

7.4 David Austin (Head of Corporate Resources) addressed the Committee, the following key points were noted:

- It was proposed that future growth of £200k be made available to fund strategic procurement and commercial services work. This was dependent on the outcome of the pilot (of which the delivery of the income generation strategy was one part).
- Whilst there were risks and caveats - it should be noted that -of the cuts recently agreed, 25% were income generation proposals for next year and for the following years proposals the figure was 35%.

7.5 Councillor Krupski (Vice Chair of the Committee) introduced a briefing (attached to the minutes) about recent events and sessions she had attended on income generation and commercialisation. The following key points were noted:

- She welcomed the opportunity to explore this issue on the Committee's behalf.
- The briefing provided a summary of some of the activities taking place to develop municipal entrepreneurialism.
- The central aim of the municipal entrepreneurialism approach was to create a robust local economy in order to keep people working in the locality, to target council spending and to ultimately reduce the reliance on services.
- Councils were trying to maximise the amount of money they were making whilst ensuring the best quality services for local people.
- Birmingham was a particularly strong authority in this area.

- There had to be through understanding of the risks and benefits of all projects. Lewisham was currently quite risk averse. The Council should accept that some projects might fail. With sufficient numbers of projects, the net effect would be positive.
- Staff could not be expected to carry out their day jobs and deliver new income generation projects at the same time.
- There should be a Cabinet Member responsible for income generation and an officer accountable for corporate support.
- Council processes should not be overly bureaucratic.
- Decisions should be made early on about how additional income from projects should be re-invested.
- A culture of challenge should be engendered across the Council.
- The Council should decide on its 'red lines' politically before it started projects.
- 'Quick wins' and early successes could help to bolster a culture of change.
- There should be sharing of best practice with other public authorities.

7.6 The Committee discussed the update from Cllr Krupski, the following key points were noted:

- The cautious mindset that was prevalent at the Council should change.
- The Council should be strengthening local businesses to thrive.
- The Council should continue to support the development of business hubs.
- There was concern about the perception of failure at the Council and the importance of protecting public spending.
- There were limited opportunities for charging in the areas of children's and adults social care spending, which were the largest areas of Council spending.
- Ideas that were successful in different areas of the country were not necessarily applicable in Lewisham.
- Further consideration would be given to future invitations to address the Committee about income generation (potential options included Association of Public Service Excellence and representatives of Birmingham City Council).

7.7 **Resolved:** The Committee agreed to share its views with Mayor and Cabinet, as follows-

- The Committee welcomes officers' report on income generation and is pleased with the comprehensiveness of the new income generation strategy. The Committee endorses the new strategy and recommends that it is agreed by Mayor and Cabinet.
- Pending a decision by Mayor and Cabinet on the income generation strategy and the new fees and charges framework, the Committee looks forward to a future report on fees and charges in due course (a provisional update has been included on the Committee's work plan for March 2019).
- The Committee anticipates progress on cultural change at the Council to stimulate commercial thinking and to bolster entrepreneurial activity. It is eager that this change permeates throughout all of the Councils directorates, divisions and services.
- The Committee believes that the Council should retain corporate support for procurement and commercial services in order to coordinate and support this work.

- The Committee asks that, in a years' time, officers return with a comprehensive review of the first year of the strategy and that this includes an assessment of the areas that have been considered and potential future income targets.
- The Committee endorses the work carried out by its Vice-Chair and it has attached the briefing she has provided to its referral.

## **6. Social value policy**

This item was considered after the income generation update.

6.1 Katherine Nidd introduced the report, the following key points were noted:

- The Council was already compliant with the Public Services (Social Value) Act 2012 but the report introduced a significant improvement to the Council's work in this area.
- There was the potential for collaborative work with other public institutions in the borough via the work with the 6 anchor institutions formed following the Poverty Commissions report of 2017.
- The Council's procurement processes were always fair and transparent but the new policy made it clear (to officers and suppliers) that the Council placed significant weight on social value both at the point of procurement but also throughout the life of each contract.
- The policy built on best practice from other areas.
- Consideration had been given to all of the Council's existing strategies and policies in determining the proposed Key Performance Indicators (KPIs) and measures of social value to be derived from contracts.
- There was a social value officer at the Council who would assist in tracking the implementation and progress of social value measures in contracts.

6.2 Katherine Nidd responded to questions from the Committee, the following key points were noted:

- The policy would complement the core areas of the service commissioning the contract within through the method statements of the procurement process.
- Issues of social value had to relate to the works, goods or services being provided. Issues outside of the scope of the contract could not be taken into account.
- The Council would keep the social value KPIs and measures under review, including the ongoing monitoring and collation of data - however - resources and officer time for auditing suppliers more generally was limited.
- Reference to the 'healthy streets' initiative, the Council's ambition for the A21 spine and air quality would be referenced as appropriate in the new policy.
- Consideration had been given to the potential for supporting local businesses through the policy.
- The Council would encourage suppliers to meet the Council's ambitions for social value through the competitive tendering process, and that some initiatives would form part of the core contract requirements. For example, payment of the London Living Wage was a clear Council policy.

6.3 In Committee discussions the following key points were also noted:

- Members recognised the limitations inherent in issuing and managing contracts but it was felt that the policy was too cautious.

- The Council's legal advice on a number of issues had been overly cautious for a number of years.
- The issue of asthma should be included in the area of the policy relating to health.
- There was no need to include non-smoking in the workplace as a key performance indicator for contracts because it was already a legal requirement.

6.4 **Resolved:** that the Committee would share its views with Mayor and Cabinet as follows:

- The Committee welcomes the social value policy. However, it urges Mayor and Cabinet to provide direct, sustained and determined political will in order to challenge officers to achieve the highest possible social value from all of Lewisham's contracts.
- The Committee believes that the Council should be able to ensure that, where practical, the supply chain for Council contracts also provides social value to Lewisham.
- The Committee recommends that there be regular and diligent monitoring of contractors to ensure that they are adhering to both the technical requirements and the wider spirit of the Council's ambitions for social value. The Committee also believes that consideration should be given to changing key performance indicators over time to ensure that the Council is achieving ongoing high quality value from its contracts.
- The Committee believes that air quality and other environmental issues should receive much greater prominence in the new policy.

## 5. Financial forecasts 2018-19

This item was considered after the social value policy.

5.1 Selwyn Thompson (Head of Financial Services) introduced the report, the following key points were noted:

- The report provided the monitoring position to the end of October 2018. It covered the main areas of the Council's financial business.
- The Oracle Cloud system was being rolled out across the organisation and officers were increasingly confident in using it.
- There had been a small reduction in overspending.
- Additional information would be provided in future reports about the progress towards the implementation of the cuts.
- Additional funding had been added to the CYP budget to help manage overspending in the directorate.
- Officers in the directorate were working closely with finance officers to thoroughly monitor and manage expenditure in the CYP directorate.
- Community Services had benefitted from additional funds for winter pressures. Further work would take place to agree how this funding would be allocated.
- There were continued pressures in the Customer Services directorate relating to environmental services and the shared IT service.
- Additional information about capital expenditure had been included in the report, as requested.

5.2 Selwyn Thompson responded to questions from the Committee, the following key points were noted:

- Officers would review the budgets for CCTV and the latest position on the budget for Beckenham Place Park.
- Further information would be sought on the costs and income from the pantomime in the Catford Broadway theatre.
- Council tax collection was slightly down on projections. It was anticipated that the lifetime collection (over four or five years) would meet the target. Information would be provided about the reporting of income from council tax from previous years.
- The shared IT service overspend resulted from Southwark entering the arrangement as a partner rather than as a customer (meaning that savings were made by Southwark, rather than to the shared service). The cut would have to be reversed in order to balance the budget. Nonetheless, significant savings had been achieved by the service over a number of years.
- The CYP directorate improvement board was making good progress. It incorporated officers from a number of different areas (including finance, HR and policy).
- Budget costs and accountabilities were being reviewed in all areas of children's services.
- Officers would provide additional information about overspending outside of the three regularly reported budget heads (local authority fostering, agency fostering and residential placements) as well as additional information about the overspends for these three areas.

5.3 In Committee discussions the following key points were also noted:

- There should be an update on overspending in the Council's budget before the draft 2019-20 budget was considered at the Committee's meeting in February 2019.
- The risk assessment for an imminent OFSTED should be included in the section on the Children and Young People's directorate.
- Members were concerned that the CCTV service was underspending but that cameras were not working in a number of places.
- The Audit Panel had requested that the Committee should consider the management of the Catford Regeneration Partnership. A referral would be forthcoming.
- There were concerns about the changes to the funding available for the regeneration of Beckenham Place Park following the withdrawal of funds from the Environment Agency.
- Members considered that there were some serious weaknesses in the financial forecasts reports and the performance of the Council's internal audit functions.
- Members remained concerned about overspending in the shared IT service.

5.4 **Resolved:** that the report be noted and that the additional information and clarifications (on the CCTV budget, Council tax collection, income from the pantomime, the budget for the regeneration of Beckenham Place Park and budget heads for CYP services) requested be provided.

#### **4. Finance control review**

This item was considered after the financial forecasts.

4.1 David Austin (Head of Corporate Resources) introduced the report, the following key points were noted:

- The report had been commissioned by Ian Thomas (the Council's previous chief executive) within narrow but specific terms. It was carried out by Bill Roots, the Chair of the Internal Control Board.
- It reviewed financial planning, the budget, the monitoring of the budget and internal controls. Findings from the report related to these areas.
- It acknowledged that the current environment was challenging for councils.
- It found that the Lewisham's financial systems were clear and that the relevant information was available. However, it also noted that there were areas for improvement.
- There were five areas in which recommendations were made but officers had considered the full report and developed 21 actions.

4.2 Councillor Hall addressed the Committee, the following key points were noted:

- He had contributed directly to the report by meeting with Bill Roots.
- The report found significant weaknesses in internal control and was damning in its findings.
- The report should be referred to Mayor and Cabinet. It should also be considered by full Council. The Council should take ownership of the action plan.
- Councillors should listen closely to advice from external experts.
- An independent report should be commissioned on the housing revenue account (HRA).
- He was concerned about the information available to the Council's Audit Panel.
- The Council should consider full cost accounting for its regeneration schemes.
- There had been a failure of the Council's internal financial controls.

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

- The Internal Control Board was formed of the Council's Executive Management Team (EMT) chaired by an independent person (Bill Roots). Its role was to ensure that EMT considered wider governance and control issues guided by independent oversight.
- Officers had produced the action plan that accompanied the report.
- The issues raised in the report were of importance but they did not constitute a failure of internal control.
- He would hand over responsibilities for internal control due to his increased management responsibilities.
- The issue of full cost accounting could be revisited. If the Council was going to be more commercially minded it might want to return to this form of accounting. It was labour intensive to do and was stopped previously as part of efficiency savings.
- The regulations around the HRA meant that funds could not be transferred to the general fund.



- The Council could not (and would not) use accounting technicalities to move funds from the HRA to the general fund. Officers did not believe that this is what was proposed in the report but further consideration would be given to the recommendation.
- Lewisham Homes accounted for HRA expenditure and there were clear boundaries around its spending and the Council's general fund.

4.4 In the Committee discussions the following key points were also noted:

- Further consideration should be given to the accounting of funds between the HRA and the general fund.
- Members expressed concerns about the Council's finances and its future ability to manage overspending.

4.5 **Resolved:** That the report should be considered by the Audit Panel and Mayor and Cabinet. The Committee agreed that it would share its views with Mayor and Cabinet as follows:

- 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.

## 8. Mid-year treasury management review

This item was considered after the financial control review.

8.1 David Austin provided an overview of the report and responded to questions from the Committee. The following key points were noted:

- Under the prudential code the Council was required to focus on security, liquidity and return (in order of importance). The Council had taken the position that it should retain liquidity of funds in the short term.
- Consideration had been given to investing in property funds but recent uncertainty in the property market had encouraged the Council to remain cautious.
- The Council kept a short term amount of cash (£60-70m) available to meet monthly expenditure.
- Consideration was given to investments over the short term whilst continued caution was exercised due to uncertainty in the economy.
- The Council's money was public money that had to be available for spending on services.
- The crisis eight years ago had created questions for councils about LOBO (lender option/borrower option) loans and investments in Icelandic Banks.

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

**9. Select Committee work programme**

9.1 **Resolved:** that the budget would be the substantive item on the agenda for the Committee's meeting on 5 February 2019 and that the Chair would decide on the appropriate format for the meeting.

**10. Referrals to Mayor and Cabinet**

10.1 **Resolved:** that the Committee's views under items four, six and seven be referred to Mayor and Cabinet.

The meeting ended at 10.20 pm

Chair:

-----

Date:

-----