

# MINUTES OF THE PUBLIC ACCOUNTS SELECT COMMITTEE

Wednesday, 28 June 2017 at 7.15 pm

PRESENT: Councillors Maja Hilton (Chair), Chris Barnham (Vice-Chair), Paul Bell, Amanda De Ryk, Carl Handley, Simon Hooks, Mark Ingleby and Sophie McGeevor and Alan Hall

APOLOGIES: Councillors Brenda Dacres and Roy Kennedy

ALSO PRESENT: Timothy Andrew (Scrutiny Manager), Robert Mellors (Finance Manager, Community Services and Adult Social Care), Dave Richards (CYP Group Finance Manager), Selwyn Thompson (Head of Financial Services) and Simone van Elk (Cabinet Officer)

For a full attendance record at the joint session, please see the records of the Children and Young People Select Committee's meeting on 28 June 2017.

## **1. Minutes of the meeting held on 19 April 2017**

- 1.1 The order of the meeting was amended. Item four (joint with the Children and Young People Select Committee) was considered first. This item was considered after the update on the work of the Lewisham Poverty Commission (item eight).
- 1.2 Resolved: that the minutes of the meeting held on 19 April be agreed as an accurate record. The previous minutes of the meeting on 15 March, were also agreed as an accurate record.

## **2. Declarations of interest**

- 2.1 There were none from Members of Public Accounts Select Committee nor from the Children and Young People Select Committee for the joint section of the meeting (item four). For declarations for the remainder of the Children and Young People Select Committee, please refer to the record of that meeting.

## **3. Responses from Mayor and Cabinet**

- 3.1 There were none.

## **4. School budgets (jointly with the Children and Young People Select Committee)**

- 4.1 The order of the agenda was amended to accommodate the joint session. This item was considered first.
- 4.2 Councillor Hilton opened the meeting and nominated Councillor Sorba as the Chair of the joint session.

4.3 Dave Richards (Group Finance Manager, Children and Young People) introduced the report. The following key points were noted:

- The main thing that would affect school funding in the coming few years was the proposed introduction of the national fair funding formula by central government.
- The formula was due to be introduced in April 2018.
- When proposals for the new formula were introduced, it was anticipated that Lewisham schools would lose a significant amount of funding.
- The government had previously committed to protecting the worst affected schools by ensuring that no school would lose more than 3% of its annual budget.
- Under the original proposals every one of Lewisham schools was at the 3% funding floor.
- Since the policy was announced, the general election had taken place and in their manifestos all parties had committed to providing more funding for schools.
- The day before the meeting, government ministers had recommitted to introducing the national funding formula in parliament. However, they also said that no school would lose out under the formula.
- There were currently no additional details about how this amendment to the original funding formula would work in practice, nonetheless, Lewisham schools would likely be in a better position in the next few years than had been anticipated.
- Schools were also facing significant cost pressures. These pressures had been mounting over the past two years and had risen to nearly 5% of schools' budgets. Schools' funding settlements had also been frozen, meaning that schools had faced a real terms loss due to inflationary pressure.
- Cost pressures, salary and non-pay inflation in the next two to three years would amount to approximately 8% of schools' budgets.
- There remained a great deal of uncertainty about the future of school funding. Clarity was not expected on the next steps for the national funding formula until the end of 2017.

4.4 Dave Richards, Sara Williams (Executive Director for Children and Young People) and Kate Bond (Head of Standards and Inclusion) responded to questions from the committees. The following key points were noted:

- Further detail was awaited on the new proposals for the schools funding formula. It was expected that the majority of any new money would be paid to schools that would have benefitted from the original proposals but that this would be achieved without taking funds from schools that would have lost out.
- The new system meant there would be much less discretion for local authorities. The original intention for the new formula was that the funding would be provided directly from the Department for Education to Schools.
- There was a possibility that the figure of the 8% cost pressure could increase if there were changes in government policy. For example, there had recently been discussions about ending the public sector pay freeze.
- Additional work had been carried out with schools to prepare them for the difficult financial climate in the coming years. As a result, a number of schools had improved their financial management processes, resulting in some underspends.

- The aggregate school balances held by Lewisham schools had unexpectedly increased in the past year.
- Schools were facing a very challenging financial climate and a number of schools were overspending on their budgets each year.
- Schools were liable to pay business rates but they were provided with full funding for rates through their budget. Schools were given an increase in funding to cover the cost of any increased rates.
- The money to pay for business rates was 'top sliced' from the dedicated schools grant before this money was paid to schools. In the previous year, combined business rates for school had increased by £300k to £3.6m.
- It was recognised that while the quality of new school environments was good, schools with private finance initiative (PFI) buildings had some constraints on the availability of premises for extracurricular activities.
- The Council had good arrangements to get the best possible deal with PFI operators.
- The schools forum and the Mayor had agreed to cap the cost of PFI arrangements to 10% of a school's budget, which was roughly the same as the benchmark for facilities management and maintenance costs in all schools.
- PFI was a legacy of the school building programme by central government.
- There were ways in which schools could raise income - but these tended to be for extra activities, rather than a contribution to their core budget.
- The Department for Education's forecast that schools could save significant amounts from improved efficiency and procurement was probably optimistic.
- Schools working together could make savings. In Lewisham there was a well-managed schools catering contract. A number of schools who had left the combined contract had re-joined, alongside some schools from neighbouring boroughs.
- A review of traded services to schools had been carried out (alongside comparison with the cost for traded services in other boroughs) to ensure they were good value.
- Work was also carried out with school business managers to encourage them collaborate in order to reduce spending.
- Schools were also provided with benchmarking information about their non-salary costs to assist with their decision making.
- There had been significant changes to the funding for early years. In the past different local authorities had had different systems for funding early years. The government had brought in new rules about funding.
- Under the government's previous proposals - school based early years provision would have lost significant amounts of funding.
- However, central government had provided additional funding to protect local authority maintained nursery schools. It was not clear how long this protection would last.
- Lewisham also provided 30 hours of free early years education to children from deprived backgrounds. The rules had been changed, which meant that in future, the Council could only provide 15 hours of support to these children.
- The changes to early years funding created an additional funding pressure on schools with nursery provision and devalued the work of early year's education.
- The Council recommended that schools retained 2/3% of their budget for contingencies.

- Average salaries for teachers in Lewisham were seventh highest in the country. This was partly because of the inner London weighting. The rest of the top ten highest paying authorities in the country was probably made up of other London boroughs.

4.5 Councillor Maslin (Cabinet Member for Children and Young People) responded to a question from the Committee about support provided to schools:

- Schools were provided with advice and training to help them better manage their budgets.
- Schools in deficit were lent money to enable them to manage their budgets in the short term - so that they could better balance their budgets.

4.6 Councillor Maslin also responded to a question from a member of the public about the current financial situation at Forest Hill School:

- The dispute between the National Union of Teachers and Forest Hill School was a matter for the school and its governors.
- Schools were funded by central government through the dedicated schools grant.
- The scheme of delegation for the dedicated schools grant was agreed by the schools forum, which was comprised of head teachers.
- Forest Hill school had overspent its budget by 10% and was now putting in place plans to manage down its deficit. The current cuts were a result of the requirement for the school to spend within its annual income.
- Statutory guidance was that schools should pay back loans from the local authority within three years, the Council had extended this to five years.
- There had been other schools in the same position as Forest Hill School who had taken difficult decisions to control their costs, so equity and transparency were important.
- Forest Hill School was a popular school and was in a better position to manage its budget than other schools that had been in a similar position but which did not have a full roll of pupils.
- Lewisham operated a different system to some local authorities regarding the liability for redundancy costs in schools. The approach being taken by the Council with Forest Hill School was consistent with the approach taken to date at other schools in Lewisham.
- He would be happy to meet with parents and the MP for Lewisham West and Penge. He would not meet with the school, the National Union for Teachers, parents and teachers from Forest Hill School to "broker a deal" because the Council was not in a position to do this.

4.7 Resolved: that the report be noted. The Public Accounts Committee also confirmed that it would be scrutinising the issue of private finance initiatives at a future meeting.

4.8 The Public Accounts Committee moved to room three for the remainder of its agenda.

## 5. IT strategy update

5.1 Resolved: to defer the item to the Committee's meeting on 13 July.

## **6. Income generation and commercialisation**

6.1 This report was considered after the update on the financial results.

6.2 Selwyn Thompson introduced the report. The following key points were noted:

- The report set out some of the work that officers had been carrying out to generate income at the Council.
- The previous attempt to appoint a commercial specialist had been unsuccessful.
- A decision had been taken to re-establish an in-house corporate procurement team.
- The Council's procurement team was disbanded two years ago. This had left a gap in the organisation, although interim arrangements (working with the London Borough of Lambeth) had been in place.
- The Council intended to improve its strength in relation to contracts and client management.
- An action plan for the delivery of the new procurement and commercialisation team was included as an appendix to the report. This had been developed alongside the Council's human resources team.

6.3 Selwyn Thompson responded to questions from the Committee. The following key points were noted:

- For the organisation to improve its commercial approach it had to have a stronger foundation for its procurement activity.
- It would be difficult for a single person or team to change the culture of the organisation.
- Work had taken place with other London authorities to understand how best to approach contract and client management.
- There were pockets of commercial knowledge and expertise in the organisation. It was hoped that the new lead role could be an internal appointment, supported by two external appointees.
- There were currently only two officers working on management of PFIs.
- There had been a discussion at a senior level about the level of seniority of the new roles.

6.4 In the Committee's discussion the following key points were also noted:

- It had been reported in the discussion under item four that the Council was intending to support schools to improve their commercial and procurement activities. This might be difficult, given the acknowledged lack of current expertise amongst officers in this area.
- Members were concerned that cuts to services had been taking place for a number of years without sufficient contract management in place.
- The new procurement lead might act as an enabler for ideas from officers in the rest of the organisation.

6.5 Resolved: that the report be noted .The Committee agreed to refer its views to Mayor and Cabinet as follows:

- The Committee welcomes the creation of new posts to support the Council's approach to income generation and the Committee recommends that these posts be filled as soon as possible.
- The Committee believes that the appointees to these posts should have the relevant experience of commercial strategy, innovative business models and procurement to maximise the opportunities available. Members would welcome the opportunity to review the CVs for these new posts.

## **7. Financial results for 2016-17**

7.1 This item was considered after the update on the work of the Lewisham Poverty Commission under item eight.

7.2 Selwyn Thompson (Head of Financial Services) introduced the report. The following key points were noted:

- For 2016-17 there had been an overspend of 4% of the Council's general fund, which was higher than previous years.
- Pressures were documented throughout the year (and reported to PAC) and included overspending on children's social care - particularly in placements budgets. There were also placement pressures in adult social care as well as overspending in environmental services because of waste disposal costs.
- There were an increasing number of schools facing financial difficulties (as outlined in the previous item). The Council's financial services team was working on improving the support it provided to schools.
- The capital programme for 2016-17 had been underspent. Further work needed to take place to revise budgets for capital projects when timetables for delivery slipped.
- Numbers of looked after children were decreasing as were numbers of children using Council transport services.
- The corporate expenditure panel was still in place to scrutinise spending.
- The financial results for the first quarter 2017-18 were due at the Committee's next meeting. It would be reported that the year had started with pressure on budgets.

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

- Services were not punished for underspending their budgets by having their allocation for the following year reduced. The Council's budget was considered as a whole at the end of the year. In year, executive directors could move sums between services in their directorate.
- Some of the cuts were difficult to deliver. There were some pressures mounting in services that were unable to reach their existing targets.

- There were still significant sums of savings to find in the years 2018-19 and 2019-20. The level of cuts was outpacing the speed of organisational change.
- There was £7.5m set aside each year to manage budget pressures.
- There was also £3.7m put aside last year for risks and other budget pressures.
- The Executive Director for Resources and Regeneration gave service managers the first opportunity to control their budgets before allocating additional funding.
- The Council was working with finite resources. Increasing contingencies would require more cuts to be made to fund the spare capacity.
- The £7m overspend in 2016-17 was taken from reserves. The Council had a number of different reserves, which were allocated to different service areas. The general fund balance was £13m - which was unallocated to any service budget.
- There were funds that could be used for a major incident or emergency in the borough.
- Some landlords were given financial incentives in order to sustain the tenancies of families at risk of being evicted. This saved the Council money on families requiring emergency accommodation.
- Some progress had been made on generating income from wireless concessions but this had been below initial expectations.
- Lewisham home receive a management fee to act on behalf of the Council, this fee is drawn from the housing revenue account. There was a separate allocation for the Brockley PFI.

7.4 Resolved: to note the report. The Committee agreed to refer its views to Mayor and Cabinet, as follows:

- The Committee asks for additional information about the level of the Council's reserves. It would like to better understand the different types of financial reserves held by the Council.
- The Committee recommends that the contingency put aside in the budget should more closely relate to the level of risk of achieving savings put forward each year in the Lewisham Future Programme.
- The Committee also requests further information about school deficits. Specifically, it would like to know how many primary and secondary schools are in deficit, how many are projected to be in deficit in the future and whether or not Lewisham is an outlier in London and in England, in relation to the number of schools in financial difficulty.

## **8. Select Committee work programme**

- 8.1 The order of the agenda was adjusted to take the update on the Lewisham Poverty Commission (related to the work programme discussion) after item four.
- 8.2 Simone van Elk (Cabinet Executive Officer) introduced an update on the work of the Commission, the following key points were noted:
- The Chair of the Lewisham Poverty Commission (Cllr Dromey) sent his apologies.

- The Safer Stronger Communities Select Committee carried out a review of poverty in Lewisham last year and recommended that Mayor and Cabinet establish a poverty task force to look into the issue.
- There had been a realisation that, whilst the Council and its partners were carrying out good work in the borough, there were still significant numbers of people living in poverty.
- The membership of the Commission included (amongst others) representatives of the Trust for London, the Joseph Rowntree Foundation, and the Child Poverty Action Group (a full list was included in the Committee papers).
- The Commission was keen to have a genuine impact on the lives of people living in Lewisham, but it realised that it was limited by time and the request to make recommendations that would fit within existing budgets.
- The goal was for the Commission to have ambitious recommendations that could be implemented.
- The Commission was focusing on three areas: employment and skills; housing; and child poverty, childcare and lone parent unemployment.
- Lewisham was in the top 20% of local authorities for the incidence of child poverty it also had also high numbers of lone parents who were unemployed.
- The Commission had explored the affordability of childcare as part of its evidence gathering. The Commission had also looked at the availability of childcare in terms of the hours offered to working people- as well as opportunities for flexible working.
- The Commission had been engaging with stakeholders, partners and residents because it realised that there were people living in the borough who might have greater understanding than themselves of issues relating to poverty in Lewisham.
- Officers had attended drop-in sessions at voluntary organisations and children's centres to talk to people.
- There had been a realisation from this work that peer to peer and community support were important to residents, not necessarily to solve poverty but to mitigate against its impacts.
- There was also a realisation that even people in the worst circumstances had things to offer, including time and skills that they might volunteer.
- The Commission recognised that people should be approached to understand what they might offer, rather than just to determine their needs.
- The Chair of the Commission had visited the Pathways to Employment programme, the housing options centre, a session of the Young Advisors and he would also be going to a children's centre.
- All councillors had been offered the opportunity to discuss the work of the Commission at their local assemblies.
- There was also a questionnaire on the Poverty Commission website.
- There was a call for evidence to all London Boroughs for examples of best practice.
- The Commission was hosting a summit on 12 July to test some of its thinking and members of the Committee were welcome to attend.
- A draft report would be available in September for comments from all Councillors.
- The report would be presented to Safer Stronger Communities Select Committee before Mayor and Cabinet.

8.3 Simone van Elk responded to questions from the Committee. The following key points were noted:

- Visits had been made to a number of organisations over the course of a month to gather the views of residents.
- The visits had not resulted in sit down interviews with everyone but officers spoke to everyone who was willing to engage with them. The work that resulted from this exercise had not been presented as comprehensive or representative but as the experiences of the 20 people who had taken part.
- Six assemblies (and potentially more) would also be discussing the commission's work at their meetings.
- Visits had been organised for the Chair of the Commission and an online survey was being hosted on the poverty Commission's website. Some residents would also be invited to the summit in July.
- Information had been sent by email to all councillors about how they could engage with the work of the Commission, this included a toolkit on how they could deliver sessions for the Poverty Commission at their local assembly meeting.

8.4 Following consideration of items five, six and seven the Committee discussed its work programme. The following key points were noted:

- Members wanted to see the full reports on the changes to IT services before their consideration at Mayor and Cabinet.
- The savings proposals were not likely to be available for scrutiny until the autumn.
- It was recognised that the Committee's review of household budgets should not duplicate the work of the Poverty Commission. There was a desire to carry out an analysis of the pressures facing all residents, not just people living in poverty.
- The types of issues (redundancy, sickness and wider issues such as the possibility of major changes in the economy because of Brexit) that might impact on the household budgets of ordinary people were highlighted.
- The potential for carrying out a broad ranging consultation with residents as well as the challenges of achieving a representative response was considered.
- That people who were in crisis would not necessarily think of approaching the Council for advice or support.
- The difference between interesting analysis and the importance of making meaningful recommendations for change was noted.
- The future pressures on household budgets and the potential of exploring future changes in policy that would allow the Council to take a more flexible approach to supporting all residents was mentioned.
- Members planned to give more thought to their aims and ambitions for the in-depth review before the next meeting of the Committee.

8.5 Resolved: to move the update on the IT strategy to the Committee's meeting on 13 July.

## **9. Referrals to Mayor and Cabinet**

9.1 Resolved: that the Committee's views under items six and seven be referred to Mayor and Cabinet.

The meeting ended at 10.10 pm

Chair:

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Date:

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