

# MINUTES OF THE PUBLIC ACCOUNTS SELECT COMMITTEE

Monday, 9 July 2018 at 7.30 pm

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

ALSO PRESENT: Councillor John Muldoon, Councillor Patrick Codd, Councillor Chris Barnham (Cabinet Member for School Performance), Councillor Paul Bell (Cabinet Member for Housing), Councillor Amanda De Ryk (Cabinet Member for Finance, Skills and Jobs (job share)), Timothy Andrew (Scrutiny Manager), David Austin (Head of Corporate Resources), Lynne Farrow (Group Finance Manager, Customer Services), John Johnstone (Group Finance Manager, Resources and Regeneration), Robert Mellors (Group Finance Manager, Community Services), Janet Senior (Executive Director for Resources & Regeneration), Yusuf Shaibu (Group Finance Manager, Children and Young People), Kevin Sheehan (Executive Director for Customer Services), Ian Thomas (Chief Executive), Selwyn Thompson (Head of Financial Services), Natasha Valladares (Executive Advisor, Chief Executive's Office) and Sara Williams (Executive Director, Children and Young People)

## 1. Election of the Chair and Vice-Chair

- 1.1 Timothy Andrew (Scrutiny Manager) invited the Committee to confirm Councillor Jim Mallory as Chair of the Committee and Councillor Louise Krupski as Vice-Chair of the Committee.
- 1.2 **Resolved:** that Councillor Mallory be confirmed as Chair and Councillor Krupski be confirmed as Vice-Chair of the Public Accounts Select Committee.

## 2. Minutes of the meeting held on 21 March 2018

- 2.1 **Resolved:** that the minutes of the meeting held on 21 March 2018 be agreed as an accurate record.

## 3. Declarations of interest

- 3.1 Councillor Ingleby declared a non-prejudicial interest as a member of the Board of Lewisham Homes.

## 4. Responses from Mayor and Cabinet

- 4.1 There were none.

## 5. Select Committee work programme

This item was moved to the end of the agenda.

- 5.1 The Committee discussed the work programme for the coming year – Members highlighted the importance of focusing Committee time on areas of overspending and possible sources of income generation.

5.2 **Resolved:** that items on communicating the Council's budget position and the annual complaints report be removed from the agenda – and – that the items on social care and income generation be added to the agenda for the September meeting. It was also agreed that income generation would be considered at every meeting, instead of an in-depth review. The work programme was agreed with the acknowledgement that it would need to change during the course of the year.

## 6. Final outturn 2017-18

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

- The report provided the financial results for 2017-18 and highlighted the key areas of the Council's activity – including the general fund, the dedicated schools grant, the housing revenue account, council tax collection business rates collection and the capital programme.
- The financial year finished with an overspend of £16.5m, which was reduced to £15.2m after applying an amount held in the budget for contingencies and risks.
- The overspend represented a 7.1% variance on the general fund, which was significantly higher than in previous years and indicated that the pressures on Council budgets were of an order that had not been previously seen.
- The Children and Young People (CYP) directorate had overspent by £15.6m, which was higher than had previously been seen.
- Additional resources and management attention had been allocated to reviewing finances in the CYP directorate in the final quarter of 2017-18.
- Children's social care had overspent by £12.6m. There were also pressures in placements budgets, including fostering and residential care for looked after children. This was a result of the weekly costs being higher than had been budgeted for and higher than expected volumes of cases.
- The main causes of the £2.2m overspend in the Partnerships and Targeted Services budgets were as a result of the costs of assisted transport as well as pressures in the budget for the Youth First contract. Further work was taking place to explore the reasons for the pressure in the Youth First budgets.
- In the Community Services budget, the majority of divisions had spent to budget or had underspent. An exception was in the adult social care budget, which had overspent by nearly £1m. The main costs related to pressures in the deprivation of liberty safeguards (DOLS) and placements budgets, which were compounded by increasing costs as a result of cases transitioning from children's social care.
- The Customer Services budget was overspent by £5m. Strategic housing was overspent by £0.2m and public services was overspent by £0.3m. These overspends related to staffing costs and underachievement of budgeted income.
- The main pressures in Customer Services were in Environmental Services as a result of the late introduction new waste collection services and increased vehicle hire costs.
- The technology and change division was overspent by £1.3m – the service delivered £1m in savings in 2016-17 in 2017-18 the reduction in the budget, combined with the costs of new software licenses and unachieved savings resulted in the overspend.
- The Resources and Regeneration budgets were underspent by just under £2m.
- There were pressures on schools budgets. Nine schools ended the year with licensed deficits. Three schools were granted loans in excess of £0.5m.

- The Housing Revenue Account reported expenditure to budget - after transferring surpluses to reserves in preparation for the funding of the new homes programme.
- The Council tax collection fund was slightly lower than target.
- Business rate collection was also lower than expected.
- The Capital Programme spent £87m, representing 86% of its revised budget (which was revised over the year according to expenditure).
- There were also sections in the report on pensions fund balances and treasury management.
- The Council's accounts would be presented to the Audit Panel later in the week. The Council's full accounts would be presented to full Council on 18 July 2018.

6.2 Selwyn Thompson, Yusuf Shaib (Group Finance Manager, Children and Young People) Janet Senior (Executive Director for Resources and Regeneration) and David Austin (Head of Corporate Resources) responded to questions from the Committee, the following key points were noted:

- The anticipated overspend at the end of the third quarter of 2017-18 was £12m. At the beginning of 2017-18 the overspend was £7.8m.
- There were a number of things that changed in the course of the year that added to the overspend in children and young people's services including: the underachievement of £1.3m of savings in social care; £2m of commitments to anticipated contingencies that actually materialised and loss of expected income from volume purchasing.
- There had been a significant increase in the use of agency staff, this was as a result of: difficulty in recruiting and retaining staff; national shortages of qualified social workers and increases in demand.
- Plans were in place to control costs in foster caring (by bringing it 'in house') there was also a business case being reviewed to develop Lewisham's own residential children's home for six children.
- Senior officers regularly challenged directorates about their budget assumptions. Over the summer of 2017, there were indications that the children's services budget overspend would exceed £12m. As a result, work was carried out to reassess the assumptions in the budget and to assure the accounting process.
- Further spending during the course of 2017, combined with some atypical accounting of expenditure in the directorate that became apparent towards the end of the financial year, had resulted in the reporting of the overspend position at the end of March 2018.
- The overspend position in children's services could not be managed within the course of a single year. It might require the use of one off resources and a further review of budgets to contain expenditure over a number of years.
- The new Chief Executive was carrying out a diagnostic review of support services, accounting, human resources and management practices to ensure that appropriate resources and support were in place for directorates to manage their budgets.
- It was recognised that controls in the organisation needed to be reviewed and strengthened. This included the controls that were in place to oversee staff joining and exiting the organisation – as well as the link between human resources and financial services.
- A review of transport had taken place over two years. It was designed to lower the level of taxi use and manage the costs of Lewisham run bus services.

- Usage of taxis had increased because recognised requirements for transport had to be met. In some cases, the use of taxis was cheaper than the use of Lewisham's own bus service.
- There had been a significant increase in the reported overspend for children's services between quarter three and quarter four of 2017-8, it was acknowledged that this was because some expenditure had not been accurately reported during the year.
- There was no deliberate policy of underspending in the Community Services budgets in order to cross subsidise adult social care.
- Further information could be provided about variances the Community Services budgets, especially where there were significant variations in small budgets.
- The value of the improved better care fund was known at the beginning of the year – most of it had been allocated – but an amount of £900k had remained unallocated during the year and was used to offset overspends in the budget at the end of the year.

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

- Members of the Committee expressed different opinions about the importance of the Cabinet Member for Finance, Jobs and Skills being in attendance. The Chair confirmed that he had invited her to answer questions about the Council's budget but requested that clarification be provided from officers about the recommendations made in a parliamentary report on practice in local authority overview and scrutiny.
- Members were concerned about the quality and robustness of the assumptions being made in financial reports.
- The Committee was concerned about the statement in the outturn that the budget pressures were '...of an order never seen previously in Lewisham.' There was particular concern about the clarity of the phrase at 6.1 in the financial forecasts report that '...the last quarter (of 2017-18) has been witness to the most significant month-on-month increases since the year began.' Given that officers had acknowledged that reporting of over expenditure throughout 2017-18 to the Committee had not been wholly accurate.

#### **6.4 Resolved:**

- That the report be noted.
- That additional information be provided about the loss of income from volume purchasing in children and young people's services.
- That advice be provided by officers about the attendance of Cabinet Members at scrutiny meetings and that the Chair of the Audit Panel should continue with his enquiries in this regard.
- That further information be provided to Members about the interim management structure in children and young people's services.
- That the Committee receive additional information about the underreporting of over expenditure in the first three quarters of 2017-18.

## **7. Financial forecasts 2018-19**

7.1 Selwyn Thompson introduced the report, the following key points were noted:

- The report presented the Council's financial position at the end of May 2018 - projected to the year end. It set the tone for subsequent reports to members during the year.
- The current reported overspend in the Council's budget was £14.8m.
- Forecasts early in the year tended to be worse than the final outturn.

- Work would take place during the year to control areas of overspend.
- The Council was currently transitioning to the new Oracle Cloud finance system, which would be used by budget holders to examine expenditure.
- Officers intended to use the new Oracle Cloud reporting tool to re-examine expenditure and produce a new financial forecast report for the Committee (and Mayor and Cabinet) after the summer.

7.2 Selwyn Thompson responded to a question from the Committee about the Oracle Cloud financial system:

- The new Oracle Cloud system would amalgamate financial and human resources information and provide more robust and accurate information about expenditure. The system was already being used but the reporting functions had not yet been rolled out across the organisation.
- It was anticipated that the reporting tool would successfully be rolled out by the end of July.

7.3 Ian Thomas (Chief Executive) was invited to address the Committee with his thoughts about the Council's financial position and to provide a summary of actions he had begun to implement since joining the organisation, the following key points were noted:

- The Council had saved a great deal of money over the past eight years of austerity but more would be required.
- It was understandable that, in order to protect frontline services, decisions had been made to reduce support services in the back office.
- Reductions in human resources and finance (in particular) had diminished the support offer that was available for frontline service departments.
- Specifically, the strategic corporate support from human resources, finance and organisational development needed to identify cost drivers in directorates and help deliver savings initiatives had not been available.
- A major programme of transformation would commence. It was recognised that the most straightforward to achieve savings had been made. Further minor changes within the organisation would not deliver the £30m of reductions in the budget that would be required in the next two years.
- Significant changes in the Council's operating model would be necessary and would need to include: changes in the relationship between the Council and citizens; substantial 'channel shift' to promote digital services; further work on demand management; and a review of the relationship between spending and investment.
- Work would also take place to deliver strong commissioning strategies for the medium to long term.
- Nationally, many councils were struggling with the same issues.
- Councils were lobbying through the Local Government Association (LGA) to ensure that local government would achieve a better deal from the comprehensive spending review in 2019.
- The National Audit Office had reported that spending cuts in local government were in danger of damaging services to the most vulnerable in society.
- The LGA predicted that by 2025 the gap in local government would increase to £7.8b.
- He recognised the Committee's concerns about children's services. Gaps that had been created by managers leaving the organisation had been filled with interim management arrangements and interim support, whilst permanent appointments were being made.
- Children's services nationally were under pressure from increases in demand. Supply and demand factors in foster caring and residential care had led to

significant increases in costs. National analysis suggested that by 2020 there would be a £2b gap in funding for children's social care.

- The Department for Education's national analysis (Newton) found that 50% of spending in social care was outside of the control of local authorities and was linked to issues such as deprivation and the impact of welfare reforms.
- Notwithstanding the national picture, the Council needed to ensure that it had effective processes in place to capture costs, particularly in children's and adult social care.
- A significant proportion of the Council's expenditure was spent on social care, which provided services that were largely unseen by the majority of the public.
- Some 'spend to save' investment might be required to delay social care interventions for children and adults.
- Conversations were taking place with the Executive to meet the challenge of the Council's finances.
- The Council was taking a proactive approach to dealing with the challenge and was ahead of other councils in terms of its efforts.
- Work was taking place to determine what could be communicated about the budget challenge, and how, to the public.
- He welcomed challenge and oversight from Councillors about the management of the Council's finances.

7.4 Ian Thomas responded to questions from the Committee, the following key points were noted:

- Work on spend to save initiatives would take place in coordination with other areas of work to ensure that the assumptions being made were sound. It was important that both spending and saving assumptions were detailed, targeted and correct.
- Information about this work would be reported before the end of the calendar year.
- He had put a moratorium on non-essential spending, it was important that everyone across the organisation recognised the sense of urgency needed to manage the Council's budget.
- The issue of comparing overspends in the delivery of services between authorities was somewhat 'academic' and depended on the initial setting of budget levels. A comparison of spend per capita might prove more accurate.
- Across local authority children's social care budgets there was: a lack of information about delivery of services; variation in financial coding; discrepancies in income levels; differences in contributions from the dedicated schools grant and clinical commissioning groups between authorities – all of which could account for different levels of funding and expenditure.
- Based on existing analysis, the Council was not in a position where it would be required to issue a section 114 notice (to prohibit non-essential spending and set an emergency budget). However, should the Council do nothing (which would not be the case) it would be -like most other councils- in a precarious position over the next three to five years.
- Lewisham's section 151 officer (ED for Resources and Regeneration) produced a section 25 notice each year to assure the Council about its finances.
- Before he took up the role of Chief Executive he commissioned an analysis on the work that was carried out in Northamptonshire following its recent financial problems. Lewisham was not in a comparable position. Northamptonshire County Council had relied on the use of reserves to maintain spending and had made some reckless decisions about the financing of adult social care and the use of its estate.

- Difficult decisions had been made in Lewisham in the past – but the Council was in a relatively strong position to meet the budget challenge.
- The National Audit Office had issued a warning about Council finances nationally, with particular focus on England's shire counties.
- Significant and serious changes and modernisation would be required at the Council to balance future budgets.
- Members would be required to make some difficult decisions in the coming years.
- Savings could be made through streamlining processes. There would also be an income generation programme, which might carry forward projects such as a local government energy company or shared/traded services.
- He would provide a written update for Councillors about the Council's finances.
- He was assured that the Mayor and Cabinet were taking the Council's financial position seriously and that there was a recognition that difficult decisions needed to be made whilst protecting the most vulnerable citizens.
- Lobbying needed to continue for both adult and children's social care. The Council could not rely on the better care fund to continue to support the delivery of adult services.
- Most of the changes that would be made at the Council would require consultation so they could not wait.

7.5 Ian Thomas, Janet Senior and Kevin Sheehan (Executive Director for Customer Services) responded to a question about the shared IT service with the London Borough of Brent, the following key points were noted:

- Five years ago Lewisham's IT service had a budget of £10m. It was now roughly £5m.
- £1m had been saved by the move to the shared IT service with LB Brent.
- A thorough review of IT services was taking place with a view to ensure that stronger performance and management processes were in place.

7.6 Councillor Amanda de Ryk was invited to address the Committee, the following key points were noted:

- She shared the Committee's concerns about the pressures on the Council's budget.
- Her discussions with lead members at other authorities highlighted that Lewisham was not in a unique position in terms of the pressures on its budget and the challenges associated with making cuts.
- A steady and important piece of work had to take place to: keep oversight of budgets; improve performance management and; develop stringent business cases for any new spending.
- The next few years would be difficult.
- Work would take place to review the corporate approach to the annual review of fees and charges, which was not as robust as it could be. Initial discussions had taken place with officers about how this work might be carried out.
- Officers had been tasked with carrying out further work on the Council's sources of income.
- Consideration was also being given to reviewing the potential social value of Lewisham's contracts.
- She would be happy to attend future Committee meetings, when invited and believed that it was an important 'sense check' for her to hear Members' views about the budget reports.
- As a previous Member of the Overview and Scrutiny Committee she'd considered it discourteous when Executive Members did not attend Scrutiny meetings.

7.7 In the Committee discussions, the following key points were also noted:

- The Committee would welcome information and support over the coming years to help meet the challenge of scrutinising the Council's finances.
- Lewisham had invested heavily in public services to provide high (but sometimes costly) levels of support for the most vulnerable, this wasn't the case at all authorities.
- The move to digital services had increased Councillor casework from people who were unable to access services online.

#### **7.8 Resolved:**

- That the report be noted.
- That further information would be provided (before the budget round in November) about the lobbying (mostly being carried out by the LGA) on funding for care services.
- That additional written information would be provided about research on local government finance.
- To note that Children and Young People Select Committee was due to hold a briefing on children's social care finance and that the Chair would seek to have Public Accounts Committee members attend that as part of a joint briefing.
- That the Overview and Scrutiny Committee be asked to consider the Council's financial position post 2020.

## **8. Medium term financial strategy**

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

- The strategy was the starting point for setting the 2019-20 budget.
- It set out the basis for the Council to set a balanced budget as well as the assumptions that were being made, including: funding streams from government (revenue support grant, better care fund, public health, new homes); future projections for Council tax (in consultation with colleagues in Planning) as well as collection, discount and inflationary increases;
- Further updates would be provided as assumptions reduced and information about the budget became clearer.
- The strategy also considered the role of pay and non-pay inflation and the business rate pooling pilot.
- Work had also been carried out to assess demand and review budget pressures to ensure that the budget setting process was sound.
- The revised prudential code required officers to provide additional information about the risks that were being taken with commercial activity. Further updates would be provided to the Committee later in the year.
- There were a number of changes on the horizon, including: a health and social care green paper in the autumn, likely consultations on the fair funding review and the comprehensive spending review in 2019.
- It was likely that the Council would need £54m of savings over the next four years, however, given the uncertainty (outlined above) it was only the £30m of cuts that would be needed over the next two years that could be predicted with any certainty.

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

- All of the assumptions about changes in the financial climate had been integrated into the report.



- Optimistic and pessimistic views of the Council's finances had been set out.
- The medium term financial strategy was reviewed each year with new information and new assumptions.
- The removal of the departmental and corporate expenditure panels for all services would allow officers to focus their attention on areas of overspending.

8.3 In the Committee discussion the following key points were also noted:

- The Committee challenged the narrative that government debt was too high and that this necessitated increasing austerity.
- The level of cuts required in the next four years would present a significant challenge for the Council's leadership.
- Members were concerned about the period of the Council's finances after 2020.

**8.4 Resolved:**

- That the report be noted.
- That the recommendation to Mayor and Cabinet about the removal of the corporate and departmental expenditure panels be noted.

**9. Referrals to Mayor and Cabinet**

9.1 There were none.

The meeting ended at 9.35 pm

Chair:

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Date:

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