MINUTES OF
PUBLIC ACCOUNTS AND AUDIT SELECT COMMITTEE

Wednesday, 8 March 2017
(6:00 - 7:37 pm)

Present: Cllr Dave Miles (Chair), Cllr Rocky Gill (Deputy Chair), Cllr Jeanne Alexander, Cllr Peter Chand, Cllr Tony Ramsay and Cllr Phil Waker

Also Present: Joe Farnell and Neil Thomas (KPMG); Cllr Dominic Twomey

Apologies: Cllr Elizabeth Kangethe, Cllr James Ogunbbose and Cllr Adegboyega Oluwole

45. Declaration of Members' Interests

There were no declarations of interest.

46. Minutes (1 February 2017)

The minutes of the meeting held on 1 February 2017 were confirmed as correct.

47. Response to the Select Committee's request for information

This report summarised the requests for information arising from the meeting on 1 February 2017. For ease of reference, each of the requests were included in summary form, followed by management’s response to each issue. The Select Committee noted the report queried the following:

Corporate Risk Register- Housing Property Compliance 3rd Quarter: October-December 2016

The Select asked about ‘water monitoring testing’ as referred to in the Housing Compliance report. They considered that testing was inadequate and noted that had rust had been identified in the water supply. The Chief Operating Officer (COO) advised that water monitoring testing had been referred to in the Assurance Board report and this was in line with good practice and legislation. Members asked for more information on the 51 priority cases and what action had been taken.

Members also were concerned about maintenance of passenger lifts, which were needing to be replaced in some cases. They were also concerned about playground safety and asked for an audit to be completed of the various playground sites. The COO stated that the Assurance Board report stated that inspections were carried out on a regular basis. With reference to playground safety, an audit had been undertaken and each playground was being checked regularly.

48. External Audit Plan 2016/17

The Select Committee received a report from the Independent Auditors (KPMG) concerning the external audit plan for 2016/17, which set out for the benefit of
those charged with governance, an overview of the planned scope and timing of
the audit, as required by International Standard on Auditing (UK & Ireland) 260.

The Select Committee welcomed Neil Thomas and Joe Farnell from KPMG. Neil
Thomas presented the report and highlighted headlines, financial statements and
materiality. He stated that there had been a risk of budget overrun in Children’s
Services. In answer to a question about overspend, he stated that External
Auditors examined all areas and not just Children’s Services.

Members asked for a description of the term, ‘materiality’. Neil Thomas stated that
materiality determined which systems were subject to audit, e.g. income from tax
and transactions.

The Select Committee noted the report.

49. Composite Internal Audit and Counter Fraud report Quarter 3 2016/17

This report brought together all aspects of assurance and counter fraud work
undertaken for the first nine months of 2016/17. This included actions taken by
management in response to audit and counter fraud activity, which supported the
governance framework of the authority. The main body of the report provided the
Head of Audit’s ongoing assurance opinion on the internal control environment,
highlighted key outcomes from assurance and counter fraud work and provided
information on wider issues of interest to the Select Committee. The appendices
provided more detail on the performance of the Assurance & Counter Fraud Group
for the nine-month period.

The Head of Internal Audit stated that since the last report to the Select Committee
on 5 December 2016, there had been no limited assurance reports issued and
audit recommendations had been chased up with officers. Those responsible
officers had provided explanations to Internal Audit. She advised there had been
significant slippage in terms of the Internal Audit’s performance indicators,
although an improvement plan was in place and it was anticipated to reach 50%
completed audits.

At the June 2016 PAASC meeting, Members were advised by the Strategic
Director, Finance & Investment, that a proposal was being considered by four East
London boroughs for a shared internal audit service, and an independent business
case would be produced. Whilst this business case was being developed, the
London Borough of Redbridge agreed to provide the Council with management
resource to run and support the internal audit service as a temporary measure.
This arrangement started from July 2016 with the intention of keeping the
arrangement under review as a short-term measure. To date there has been little
progress with developing an audit shared service business case for the region.
This combined with the imminent departure of Redbridge’s Head of Audit following
a restructure of senior management posts. This meant that the Council needed to
undertake a review of the audit service to determine an appropriate delivery
model.

Members thanked the Head of Internal Audit for her work in managing the
Council’s audit function in the last nine months. They were concerned about the
future review of the internal audit service and felt that it would be useful to explore
a shared internal audit service with other London Boroughs. In this respect, the COO had met the Section 151 Officer at the London Borough of Redbridge and it was anticipated that the existing partnership arrangement may continue. The Cabinet Member for Finance, Growth and Investment noted the concerns of the Select Committee about the future internal audit service although stated that each borough had its own auditing priorities and that future auditing arrangements were subject to on-going review.

Members asked about the auditing of materials and stock control. The COO advised that an audit had been undertaken at Pondfield Depot and that no irregularities had been found.

Members asked about the implementation of audit recommendations in terms of Trade Waste. The COO advised that this matter was being addressed by the Director of Public Realm which included a timetable for implementing the recommendations.

The Select Committee noted the report.

50. Employment Tribunal costs 2014-2016

The report showed an analysis of Employment Tribunal cases where the Council was the respondent for the period 2014-2016.

In summary, there were nine cases brought against the Council in 2014, five cases brought against the Council in 2015 and twelve cases brought against the Council in 2016. Detailed anonymised information was provided in Appendix 1 to the report and that owing to confidentiality clauses, names and individual settlements was unable to be disclosed in the report.

The Interim Head of Workforce Change (IHWC) introduced the report which showed details of cost and numbers for employment tribunal cases since 1 January 2014. This set out the general context in Employment Tribunals. Human Resources officers had a good working relationship with Trade Unions and every effort was made to try and avoid cases going to an Employment Tribunal. In some cases, applications to Employment Tribunals were withdrawn.

Members asked why there had been an increase in the numbers and costs over the period. IHWC responded that it was difficult to draw conclusions on costs as certain cases may have been higher owing to complexity.

Members asked for an explanation of the term ‘internal disbursements’ and it was advised that this included the costs for legal services on an hourly rate basis and employment of Counsel at the ET as necessary.

The Select Committee noted the report and agreed for an annual update on ET costs in future.

51. Housing Benefit & Housing Benefit Overpayment Performance in 2016/17

The Select Committee requested a report providing updated details on the Benefits Service Performance for 2016/2017 and subsequent overpayment
impacts and recovery. The request also asked for the report to detail how the overpayment growth was being managed and monitored. Overall, performance was much improved since last year and key performance indicators were being met.

The impact of welfare reform, and the volume of changes being experienced by the borough’s residents, together meant continuing increases in the level of housing benefit overpayments. However, the level of LA error remained low, indicating strong performance in the service itself. This meant that the increase in overpayments was not being generated through mistakes in the service’s own activities. The overpayments arose from delays in recipients notifying us of changes, and the number of changes being experienced.

The Customer Engagement Performance Manager (CEPM) introduced the report and the Select Committee noted that the total outstanding overpayments at the beginning of 2016/17 was £18,402m. As at 1 January 2017, this figure has risen to £22,351m.

The Select Committee referred to the Service Improvement Plan (SIP) and asked about the use of ICT in terms of processing housing benefit applications and whether this saved money. They were also concerned about underpayments too. In response, the CEPM expected levels of overpayment to continue as they were at present with the introduction of Universal Credit (UC). Elevate had started work with the Customer Insight Team in January 2017 in order to understand better customers within the borough and why they may have certain debts. This project encompassed all streams of revenue and in using the Customer’s Insight behaviour specialist, it was hoped that more detailed segmentation and tailored actions could be taken to improve debt collection. The benefits claims and payments process was undertaken on-line although there was a small team of officers that visited customers in their own homes upon request. He added that letters to claimants needed to be user friendly and in clear English and there were a growing number of those affected relying on housing benefit.

The Cabinet Member for Finance, Growth and Investment advised that the Local Authority (LA) error rate was 0.27%, which was below the penalty level of 0.43% set by the Department of Work and Pensions. He was assured that the error rate was going down and the change in circumstances was a challenge. The onus was on those receiving housing benefit to report changes in their circumstances and dealing with overpayments was a complex issue. All Members had casework in relation to Housing Benefit issues and the SIP would help address the need for customer insight. There may be a number of reasons for overpayments and he was concerned for residents in this situation with the introduction of Universal Credit. He was pleased that the service was improving but claimants’ income might change and some may be not setting aside the money to pay the overpayments. The Council would need to understand that people may be having problems in paying which then leads to recovery action against them. It was accepted that Elevate officers worked hard as possible to recover the money and it this could only get worse with the introduction of the Government’s welfare reform agenda.

Members asked about whether there were any debts where Elevate were unable to be recovered. The CEPM stated that officers aimed to recover all debts, which
in some cases could take a long time. Elevate were very flexible on level of recovery and if those people affected by overpayments contacted Elevate, then payments could be considered to be lowered or the debt re-payment extended.

The Select Committee noted the report.

52. Reserves Update

A request was made for an update on the Council’s reserves situation. This update included summary tables on the reserves and explanations on each area. The report also highlighted the definition and guidance on reserves from CIPFA. Each of the Council’s reserves were clearly identified, the intended use of each reserve was known, forecast spend and use of each reserve was shown and the forecast balances of each reserve for the end of the financial years 2016/17, 2017/18 and 2018/19 were provided. All reserves were being used in accordance with their intention and the Council’s levels of reserves were greater than the minimum requirements needed for the organisation.

The report listed each of the four reserves and with a brief explanation of their purpose. A summary of the reserves position was shown in the report and there were 17 earmarked reserves.

Members were concerned that there was a reduction in the reserves. They considered the need for fiscal management to deal with unexpected events and costs and they considered the maintenance of adequate reserves was important for the financial stability of the Council.

The Cabinet Member for Finance, Growth and Investment stated that the Council had been in a severe financial situation several ago and referred to the Children’s Services overspend, which was now on target for 2017/18. He referred to his statements at Cabinet and the Assembly on the Council’s finances and felt that difficult decisions would have to be made on the future reserves which would be discussed in full at Labour Group prior to Cabinet and Assembly. He added it was pleasing that earmarked reserves were increasing.

The Select Committee noted the report and asked for an update report on the reserves on a quarterly basis.

53. Update on the Voluntary Redundancy Exercise carried out in 2016

The severe reductions in funding and the Council’s ambitious transformation plans were together likely to result in a significant reduction in staffing numbers. In recognition of this and to mitigate the risks for both staff and the organisation, the Council ran a process in 2016/17 to allow staff who were at risk to express an interest in taking voluntary severance. Staff were asked to express an interest by 31 July 2016 and a specially convened panel met and considered applications throughout Spring and Summer 2016. This report provided an overview of the impact of the programme including the number of staff who left under voluntary severance, the costs incurred and the consequent savings.

The COO introduced the report. She advised that 468 staff had applied for voluntary redundancy and 239 were approved for VR as at the end of November
2016. At that date the total cost of compensation payments was £7.45m of which £4m was from the General Fund and £3.45m from the Housing Revenue Account. The in-year saving was determined by the leaving date of the staff member in question which ranged from March to December 2016. The total in year saving from the posts deleted will be £6.017m.

Members were concerned that staff skills had been lost by voluntary redundancy and considered that too many employees had left the Council at “ground level”. The COO advised that the overall headcount for Repairs and Maintenance staff had reduced and performance in the service had improved. Housing had been restructured and Officers would become part of the new organisation, “My Place”, undertaking different designated roles. There were some areas where staff were not allowed to be considered for VR, including Caretaking, Cleaning and Passenger Transport. EE jobs would be in multi-disciplinary teams.

Members asked why was a decision had been taken to retain the 45 weeks’ multiplier for voluntary redundancy payments and asked how the redundancies had been funded. The COO stated that capital budgets had been used for voluntary redundancy in respect of the pension payment but revenue budgets were utilised for remainder of the VR payment and added that the pension ‘strain’ had been included in the costs contained in the report.

In answer to question, the Cabinet Member for Finance, Growth and Investment stated that the cost of the multiplier was £667,000 and the Council had taken the view that using the 45-week multiplier for VR purposes in this exercise was correct in being applied as there was a large amount of transformational change within the Council.

The Select Committee
(i) Noted the information provided about the process and
(ii) Noted the costs and savings arising from the exercise

Members asked for an explanation of the cost of the pension strain, the cost of which was included in the costs.

54. Work Programme

The Work Programme was noted with the following changes:

Action Plan- updating Risk Management risks: deferred to June meeting.

Investment and Acquisition Strategy – this had been agreed by Cabinet in October 2016 and a summary of the report was requested- 28 June PAASC meeting.