MINUTES OF
PUBLIC ACCOUNTS AND AUDIT SELECT COMMITTEE

Tuesday, 22 March 2016
(6:10 - 8:30 pm)

Present: Cllr Dave Miles (Chair), Cllr Rocky Gill, Cllr Eileen Keller, Cllr Adegboyega Oluwole, Cllr Tony Ramsay and Cllr Phil Waker

Also Present: Dr Ian Fifield and Phil Johnstone; Cllr Peter Chand, Cllr Dominic Twomey and Cllr Dan Young

Apologies: Cllr Jeanne Alexander

103. Declaration of Members' Interests

There were no declarations of interest.

104. Minutes (3 February 2016)

The minutes of the meeting held on 3 February 2016 were confirmed as correct, with one addition:

Minute 95- Composite Assurance & Counter Fraud Report- Quarters 2 & 3 2015/16 Including Review of Effectiveness of the Internal Audit Service

“With reference to the mini-restructure of the team, Councillor Waker did not agree with the shift of the Group towards preventative work at the expense of reactive investigations”.

105. Petition re: Closure of the Civic Centre

The Select Committee received the report and agreed that this matter would be deferred to its next meeting in June 2016, unless it becomes necessary to call an earlier meeting in the light of a further report, due to be presented in April 2016 on the rationalisation of Council buildings.

The lead petitioner, Andrew Achilleos had been invited to the March meeting and he would be advised of the Select Committee’s latest position in this matter.

106. Addressing Financial Pressures in Children's Services - The Children's Social Care Ambition and Finance Efficiency (SAFE) Programme

At its meeting on 21 October 2015, the Select Committee received a report which showed an overview of some key historical data, the current financial position, outline business case for the SAFE programme and benchmarking information.

This updated report presented the progress made to manage spend in Children’s Services and to deliver the Outline Business Case (Appendix 1), presented to the Select Committee on 21 October 2015, for a financial efficiency programme which sought to bring Children’s Services spend almost in line with budgets by March
The July 2015 revenue budget monitoring report had projected the gross
departmental overturn to be £11.6m overspent. The report highlighted a number of
mitigating actions to be taken which would reduce the potential end of year
overspend to £6.0m. A report to Cabinet in March 2016 was a projected overspend
of £5.8m in Children’s Social Care and Complex Needs, mitigated by £300K
underspend elsewhere in Children’s Services, with SAFE programme costs at
£811K.

The Select Committee asked what were the financial and other risk factors to the
SAFE programme and the departmental budget not being brought back into line.
The Corporate Director for Children’s Services responded that there was a risk of
judicial review if needs were not met; children being left in unsafe positions and
financial risks if too many children were in need of out of Borough residential
support because we had not been able to intervene quickly enough. The Council
had a duty to ensure that children were safe and that any financial risks were
reported to them and external auditors. However, there are also corporate risks if
spending cannot be managed down because the cost of children’s social care was
eating into contingency resources and/or for the Council.

The Select Committee were concerned about the continuing Children’s Services
overspend and emphasised that this needed to be reduced. Management were
monitoring agency costs in recruitment and team managers were being appointed
to deal with this in addition to the work being undertaken across all London
Councils. They were also seeking to reduce placement costs. There were two
models that would assist management in financial planning, namely, a “demand”
model and “financial” model. The latter was almost finalised and this would assist
officers in predicting future costs.

The Select Committee considered that there should be a re-balancing of adult and
children’s services budgets as the number of children in the borough was
continuing to grow. In response, the Corporate Director, Children’s Services stated
that there were legal requirements needed from the Care Act which impacted
particularly on adult social care, and the adults’ budgets were also under pressure.
The Strategic Director for Finance and Investment had a specific responsibility to
ensure that budgets were as robust as possible across all areas of the Councils
services in liaison with departmental Chief Officers. It was clear that Members
faced tough choices to identify which areas should be protected in a period of
prolonged financial austerity.

The Select Committee agreed that a further report would be submitted to them in
six months time (September 2016), in order to outline progress to deliver the
Social Care Ambition and Financial Efficiency (SAFE) Programme as set out in the
Outline Business Case (Appendix 1).

The Select Committee noted the report and the progress made to deliver the
business case as detailed in Appendix 2 at agenda item 13.
107. Risk Management Review

This report provided a summary of the current position of Corporate Risks. There were a total of 26 Corporate Risks, the same as at the last report to the Select Committee.

The Select Committee noted the report and requested that, in future, the Corporate Risks Dashboard should be presented in A3 landscape form to ensure that it would be easier to read and review.

108. Internal Audit Charter, Audit Strategy & Audit Plan 2016/17

This report presented the Internal Audit Charter and Internal Audit Strategy. These documents, in accordance with best practice, clearly defined the purpose, authority and responsibility of Internal Audit, set out how the internal audit function supported the Council’s Vision & Priorities and how the service would be delivered and developed.

This report also detailed the proposed Internal Audit activity to be undertaken in line with the Audit Strategy in 2016/17.

The Group Manager (Audit & Counter Fraud) explained that regulations arising from the Local Audit & Accountability Act 2014 required the Council to “undertake an effective internal audit taking into account public sector internal auditing standards”. These standards, amongst other things, included having an up to date audit charter and audit strategy in place.

The revised documents incorporated very minor revisions from last year. The report also sets out the proposed audit plan for 2016/17. The Group Manager advised that the plan had been fully consulted on and researched and therefore represented proper focus in the right areas, striking a balance between involvement with operational controls, strategic risks and, increasingly, during transformational change such as the Ambition 2020 programme. The Group Manager also confirmed that the plan would provide sufficient evidence upon which a Head of Audit assurance opinion can be given which will inform the statutory Annual Governance Statement at year end.

The Select Committee asked for the third paragraph under ‘reporting’ on page ninety of the Audit Strategy to be clarified. To this end, the paragraph has been amended to read “A summary report will be provided to Members of PAASC on a quarterly basis detailing any key themes or emerging issues, report summaries on areas where limited assurance was given or delays in finalisation of reports is experienced, and performance of internal audit in delivery of its service and management’s performance in implementing recommendations, including explanations from managers where implementation deadlines slip or were missed”. Members further requested that future update reports to the Select Committee included where new approaches to seeking assurance had been considered and/or employed by the Audit Section which the Group Manager agreed to do.

The Select Committee also enquired how the Audit Plan was constructed and who had the final say on its content. They sought clarification as to how potential issues of audit interest identified by Members could be fed into the audit plan. In
response, the Group Manager stated that he ultimately determined the plan based on all available evidence and any issues or concerns identified by Members would be channelled through the Strategic Director, Finance & Investment, to be considered whether they warranted audit attention, for which contingency days existed or the plan could be amended.

109. External Audit Plan (LBBD and Pension Fund)

The External Auditors (KPMG) presented their External Audit Plan for 2015/16.

The Select Committee highlighted in particular their concern that the Council exceeding its budget by approximately £6m in 2015/16, compared to £70,000 in 2014/15, which were called “budget overruns”. The overall position was primarily driven by Children’s Services although this had been offset with savings of over £1m from central expenses. The External Auditors would review overall management arrangements that the Council had for budget monitoring, in particular Children’s Services. This would include the processes to mitigate budget overruns in the current year and controls to ensure following years did not experience the same pressures. They noted that the budget overrun identified for the Council in 2015/16 was high compared with other local authorities. The External Auditors assured the Select Committee that a robust approach to this matter was being undertaken.

The Select Committee enquired about the listing of assets i.e. the Housing Revenue Account or General Fund. The External Auditors responded that the lists did not show specific assets for internal funds and that the balance sheet contains all assets of the Council. The External Auditor explained that the decision to account within the general fund or HRA was driven by the current operational use of the asset not any historical purpose or transfer. For example, a Council owned property used as a residence with the authority acting as a social landlord should be accounted for in the HRA but, when it ceases to be used for that specific purpose, it would be accounted for in the general fund. The External Auditor confirmed his agreement to the accounting treatment for the Council’s commercial properties on this basis.

The Select Committee also asked about the possibility of an audit of the Council’s Garages with the potential for this and other areas of income generation of the Council’s assets. In this respect, the External Auditors would discuss this matter with the Strategic Director, Finance & Investment.

110. Barking Market-Breakdown of Accounts

At its meeting on 7 September 2015, the Select Committee received a report confirming the accounts for Barking Market from 2012/13 to 2014/5 together with details of the changes of governance and actions in place following its transfer in-house. This report provided a requested breakdown of charges to the account in the last two trading years.

The anticipated income from the market for 2015/16, compared to the actual income achieved in 14/15 was ambitious. The reason for the income being set at this level was an expectation that the markets would regain the levels of income seen in 2013/14, once it was brought back in-house. The forecasted income for 2015/16 was in line with the income level for 2014/15. Whilst the variance in
income was £80,100 on the projected budget, the actual performance was more consistent with previous year and actually shows a 3% increase compared with 2014/15.

Staff costs had been an ongoing challenge through 2015/16. This was partly due to the costs of transferring existing staff from Charfleets, under their current terms and conditions. This included a profit share arrangement paid to Charfleets and management fee which was 40% and 43% of the turnover in 2013/14 and 2014/15 respectively. This cost included the cost of staffing and some other operational costs not met directly by the market. This represented additional costs to arrange the market transfer.

The Select Committee noted that a more detailed strategy for income generation in 2016/17 was being implemented including greater promotion of the market although this may not become more evident until 2017/18. It was further noted that the substantial increase in internet shopping had had an effect on the market sector.

The Select Committee were particularly concerned about the very large increase in staff costs and wished to know why the overall costs of Barking Market had risen so considerably. They requested that an updated report was submitted to the next meeting in June 2016 which should include:

(a) The 2016/17 Barking Market budget;

(b) An analysis of the Market’s viability;

(c) The further costs for the Barking Market Manager post which had been covered on an interim basis and would be brought to a conclusion on 31 March 2016;

(d) The impact of the reductions shown in the report as part of the strategic direction of the Market (paragraph 1.3.2); and the

(e) Reasons for the significant increase in staff costs;

111. Highways Investment and Reactive Maintenance Update

Further to the report submitted to the last meeting of the Select Committee on 3 February 2016, Members asked for further information relating to a number of points.

The report included information on the following areas:

- Proposed Highways scheduled resurfacing programme 2016/17;
- Completed Highways Investment Programme 2015/16;
- Allocation of Highways Capital spent on non-principle roads 2008-2016;
- Breakdown of reactive works in Mayesbrook Ward 2015/16;
- Breakdown of HRA planned works for completion by 31/03/16;
- Breakdown of HRA planned works for completion 30/05/16;

The report identified that over the last period of years and at the present time, the
Council did not have a formal condition survey detailing the condition of the network in scope of the borough’s responsibility. Failure to have in place a robust evidence-based approach to determining the programme had led to an annual resurfacing programme being determined using complaint data, strategic or risk based prioritisation and significantly the experience and professional opinion of the borough’s Highways Inspectors. The Council had identified the need for a formal Highways Asset Condition survey and made capital available. Work on the survey undertaken by an independent suitably qualified third party would commence in Quarter 1 2016.

The Select Committee were particularly concerned that no formal process for determining work allocations had been in place over several years, though noting the professional knowledge of the highways team. They noted that this could leave the Council open to potential legal challenges. Officers were working as hard as possible to deal with these long term issues and introduce robust criteria for the future.

The Select Committee were also concerned that their request for 2015/16 criteria for determining the works allocations in highways investment and reactive maintenance had not been included in this report, as requested at their meeting on 3 February 2016. They also requested details when the formal criteria for highways maintenance had ceased.

The Select Committee requested an update report for their next meeting in June 2016 which would identify:

(a) What was the process for determining the works allocations for highways investment and reactive maintenance in 2015/16, and what criteria had been used to inform the decision making?

(b) The criteria that had been in operation since 2006 with a clear explanation when the formal criteria for determining work allocations in highways investment and reactive maintenance had ceased.

112. Update on use of Agency staff, Project workers and Consultants

At its meeting on 1 December 2015, the Select Committee requested data on the use of agency staff, project workers and consultants on a regular basis in order to monitor it more effectively and aligned information to meetings of the Employee Joint Consultative Committee (EJCC). Alongside the individual temporary staff data that was submitted to the EJCC, summarised data of expenditure by service area was included for the last three months to give the Select Committee a more strategic overview.

The Select Committee noted the report and it would receive further updates on a regular basis, scheduled into the work programme for 2016/17.

113. Addressing Financial Pressures in Children's Services - The Children's Social Care Ambition and Finance Efficiency (SAFE) Programme- Appendix 2

This confidential appendix was noted and as part of agenda item 5: (Addressing Financial Pressures in Children's Services - The Children's Social Care Ambition and Finance Efficiency (SAFE) Programme)).
114. Vote of thanks

The Chair noted that this was Dr Ian Fifield’s last meeting and accorded thanks to him in his work as Independent Adviser to the Select Committee over the last four years.

The Select Committee wished the Dr Fifield well for the future and the Strategic Director, Finance & Investment confirmed that the post of Independent Adviser would be advertised in due course.