



REGENERATION & RESOURCES SCRUTINY SUB COMMITTEE

MINUTES of the meeting of the REGENERATION & RESOURCES SCRUTINY SUB-COMMITTEE held on 2 FEBRUARY 2006 at 6:30PM at the Town Hall, Peckham Road, London SE5 8UB

PRESENT: Councillor Toby Eckersley – Chair
Councillor Jane Salmon - Vice Chair
Councillors John Friary, David Hubber and Michelle Pearce

OFFICERS: Joe Brady – Divisional Service Manager, Performance and Quality
Cathy Doran – Head of Budgets and Financial Planning
Chris Brown – Head of Housing Management
Stephanie Fleck – Principal Lawyer, Contracts
Stephen Gaskell – Head of Corporate Planning and Performance
Carina Kane – Scrutiny Project Manager
Simon Hughes – Assistant Finance Director (Corporate)
Bill Murphy - Strategic Director of Customer and Corporate Services
Sarah Naylor – Assistant Chief Executive (Performance and Strategy)
Duncan Whitfield – Finance Director

OTHERS: Geoffrey Banister – Audit Manager, Audit Commission
Kash Pandya – Relationship Manager and District Auditor
Councillor Lorraine Zuleta – Executive Member for Resources

APOLOGIES FOR ABSENCE

Apologies were received from Councillor Billy Kayada and Gavin O'Brien.

CONFIRMATION OF VOTING MEMBERS

The Members listed as being present were confirmed as the Voting Members.

NOTIFICATION OF ANY OTHER ITEMS WHICH THE CHAIR DEEMS AS URGENT

None.

DISCLOSURE OF INTERESTS AND DISPENSATIONS

There were none.

RECORDING OF MEMBERS' VOTES

Council Procedure Rule 1.17(5) allows a Member to record her/his vote in respect of any motions and amendments. Such requests are detailed in the following Minutes. Should a Member's vote be recorded in respect to an amendment, a copy of the amendment may be found in the Minute File and was available for public inspection.

The Sub-Committee considered the items set out on the agenda, a copy of which has been incorporated in the Minute File. Each of the following paragraphs relates to the item bearing the same number on the agenda.

MINUTES

RESOLVED: That the Minutes of the meeting of the Regeneration & Resources Scrutiny Sub-Committee held on 12 January 2006 be agreed as a correct record of proceedings and signed by the Chair.

1. EXECUTIVE INTERVIEW [pages 1 and 73]

1.1 The responses to the questions that sub-committee members were asking of the Executive Member for Resources were circulated to the meeting and are attached as appendix 1. The sub-committee took the approach of asking supplemental questions that arose from the written responses. These are reported on below.

Question 1:

1.2 Members were interested in understanding whether it was in the council's interest to redeem debt prematurely. Officers explained that they would not recommend premature debt redemption as it had a significant adverse impact on the council's revenue account. Officers confirmed there was no debt due for redemption in 2006/07 or 2007/08, but there was debt reaching maturity in 2008/09 and 2009/10 and there was no intention to redeem this prematurely.

1.3 When asked whether she would prefer to debt to be paid off if the opportunity arose, the Executive Member replied that she would want to see the full profile of the capital programme, and would preferably pay it off. However this would need to be considered in the context of what was happening at the time, such as under the capital monitoring system. Any decisions would be shared with members.

Question 2:

1.4 The sub-committee sought clarification about the grant for the partnership of older people pilots which was listed as a new burden on the council. Officers confirmed this was new spend, and undertook to get further details about the grant for the sub-committee. The Executive Member agreed that the late notification by the government of new burdens was not acceptable.

Question 3:

1.5 There was a suggestion that the council was "fudging" the self-financing basis of the Customer Service Centre (CSC) with the Gershon efficiencies. The Executive Member confirmed that she would aim to separate the two and said she had asked officers for information about what savings could be attributed directly to the CSC. She provided Members with some examples of savings that had been achieved and added that members should take into account the fact that the CSC programme had been implemented in one year, which was two years earlier than planned.

- 1.6 Members therefore suggested that the Executive Member should be able to inform the sub-committee of the methodology for separating the CSC. The Strategic Director of Customer and Corporate Services said the CSC would be the main driver of efficiency savings, but it was difficult to divorce the two. It made more sense to set an efficiency target, of which the CSC was a part, in order to deliver the efficiencies targets the council wanted. The Executive Member confirmed that she would like to see what the savings were first, and then look at how they could be attributed.
- 1.7 The Strategic Director of Customer and Corporate Services also clarified to the sub-committee that the decision taken by Council Assembly to go ahead with the CSC was not on the basis that the CSC would be self-financing. The council would incur costs with its initial investment in additional services such as the introduction of one-stop shops. The cost-neutrality mentioned in relation to the CSC was in regard to the cost of the council running the services compared with the cost of running the services externally (i.e. replacing the service). The Finance Director added that the net impact was lower because it was based on gross figures and the transfer of existing budgets.
- 1.8 The Executive Member was asked if she would prefer more clarity about the off-sets. She agreed that this was needed and that the information about service replacement should be available. The additional services needed to be evaluated over time.

Question 4:

- 1.9 Members referred to the comment from the Executive Member in the written response that all new capital approvals had been subject to agreement by Executive. The Executive Member said this referred to the urgent and immediate priorities and these were listed in Appendix H of the Policy and Resources Strategy report that went to Executive on 31 January 2006. She was personally keen to see the entire capital programme set out so that judgements could be made based on the whole picture.
- 1.10 When asked for her view about member involvement in 'lower levels' of the capital approval process, the Executive Member said there should be member involvement for major capital projects. The Finance Director advised he was continuing to consider the most appropriate way of engaging Executive Members within a working group. This would form part of a wider review of capital programming and control processes to be reported to the Executive in the summer, and would take account of constitutional requirements, including the role of scrutiny and other members.
- 1.11 There was also discussion around the impact of the membership change to the Capital Working Group on the constitution and individual decision-making. The Executive Member said she believed that any decisions about the process for approving capital projects should be reflected in the constitution although she was waiting on officer guidance.
- 1.12 It was suggested that it might be too late to suggest amendments for the current constitutional review for 2006/07 and members asked whether the constitution could only be amended once a year. The Principal Lawyer said the constitution could be amended during the year but she thought there were practicalities around the printing and distribution of the constitution. The Finance Director said officers were finalising an Executive report the following week and offered to incorporate any of the sub-committee's comments in either this report, or in the report to Council Assembly on the 22 February 2006.

Question 5:

- 1.13 The sub-committee sought confirmation from the Executive Member that she was confident about the definition of 'budget' in the context of the medium-term financial strategy and in the 'budget and policy framework' part of the constitution. The Executive Member said that she thought she was; she knew what she had proposed to Council Assembly in balances, income and expenditure. She added that variations could affect the balances, and variations over £250,000 needed to go to Council Assembly. She agreed that more clarity was needed.
- 1.14 The Finance Director said that departments needed to advise on variations of £250,000 but officers were working to tighten up the definition, particularly in relation to redirecting resources from one priority to another. In addition, proposed revisions around virements were being fed into the May constitutional review.

Question 6:

- 1.15 In response to a comment from a Member that it should be up to tenants to judge whether there were control weaknesses in respect of responsive housing repairs, the Executive Member said that because of the volume of repairs, even a small percentage translated to a large number of repairs. Councillors tended only to hear when things went wrong. However, the system was not perfect and the council could continue to improve in this area.
- 1.16 Officers briefly informed members of other work that was being done to get feedback about responsive housing repairs and said they were procuring a new contract which would increase partnership between the various parties. In response to questions about paying contractors for poor or non-existent work, the sub-committee was informed that the council did not pay the final bill until the tenant had signed off on the work. In addition, there was a twelve month defect liability period, and part of the performance bond was held back until the end of this period.
- 1.17 The sub-committee asked the basis of the auditor's agreement that there were no significant control weaknesses, and were informed by officers that PricewaterhouseCoopers annually analysed repairs and maintenance control. The latest audit statement had been issued in the previous six months. In addition, the council regularly checked cases that went to arbitration and monitored disrepair works and legal cases with the aim of resolving them at an earlier level.

Question 7:

- 1.18 Members suggested that comment that the introduction of a comprehensive property database on the housing department's IT system to ensure coding of responsive repairs was an admission that there had been some problems. The Executive Member agreed, and said the council could always do better.
- 1.19 There was a general discussion about the speed at which the property database was being introduced. Officers explained that the current housing repairs software (IWorld) had not been designed with leaseholders in mind. The work to upgrade and interface with the two systems was ongoing. A GIS mapping exercise should allow better apportioning of costs to leaseholders. In conjunction, there needed to be a simple and comprehensive coding system to reduce human error with inputting data.

Question 10:

- 1.20 Officers undertook to provide the sub-committee with information about how the Schools Forum was constituted.

Question 12:

- 1.21 The sub-committee was told that the office accommodation review was still some time away from Executive consideration. A model had been developed to assess the benefit and costs of changing locations and to consider the integration of Childrens' Services. Officers confirmed that they had looked at the property values across Southwark and considered properties when they came on the market.
- 1.22 In response to further questions, officers said that there could be an opportunity to look at a Section 106 agreement in the Elephant and Castle regeneration, but that this would depend on the council's needs and the timing.
- 1.23 Officers agreed to provide the sub-committee with information on what has happened to the growth bid agreed for 2005/06 for the office implementation strategy.

Question 13:

- 1.24 The Executive Member assured the sub-committee that she met with officers and contractors regularly to look at the performance statistics for the housing benefits system, and made it quite clear when she was not pleased with the performance. Her current concerns were about the accuracy and classification of payments and she was meeting the Manager of Liberata to discuss this the following week.
- 1.25 Representations had been made to government about the tightening up of the complex housing benefit regulations. Officers said that although the ALG, LGA and DWP were all involved, not much had been evidenced to date. The Executive Member explained that the direction being considered was simplifying the system so that claimants did not need to reapply annually for housing benefits, although this could led to a higher risk of overpayments going undetected.
- 1.26 The Chair thanked Councillor Zuleta for her attendance.

2. ANNUAL AUDIT AND INSPECTION LETTER 2004/05 [pages 3-34]

- 2.1 Before proceeding with this item, the Chair read out the resolution made by Executive in relation to its consideration of the Annual Audit and Inspection Letter 2004/05 at its meeting of 31 January 2006, which referred the letter to the sub-committee for comment.
- 2.2 The District Auditor (DA) was then invited to introduce the annual audit and inspection letter for 2004/05. He explained that it was a summary of the work done the previous year, and the DA's perception of how the council had discharged its duties. The council had an encouraging year but there were still some challenges, such as ensuring that the council's ambitious plans for developing the area was accounted for in setting the budget and that robust project planning and capacity was in place for this.
- 2.3 Members commented that the CPA process was expensive and could be better directed to the council's needs. The auditors said CPA was not intended as a 'process', its purpose was to assess the quality of services. The key was whether the direction of travel was right. Since the CPA was introduced four years ago services had improved nationally. However there had been learning over time, and the auditors speculated that it could be developed with more of a 'risk-based' focus.

- 2.4 Members also asked about the understanding that local authorities would be freed from inspections as performance improved. Officers said that, as with any other service based inspection, the preparation time was a burden. However officers were working with a view to minimising the bureaucracy but still giving assurances to the end users and introducing more self-challenge into the process. The ODPM was currently consulting on this with a twin focus on the performance framework and the management regime. A new process could be in place in 2008, when the current CPA round ended.
- 2.5 The sub-committee then asked specific questions about the annual audit and inspection letter:
- When asked about whether the council's medium term strategy was the right one, the auditors replied that officers were reviewing this.
 - Members queried the meaning of the comment that the council needed to continue to develop and embed robust project management arrangements. The auditors said this was a difficult area and needed to be correct from the beginning – the only area they had highlighted for concern was Peckham Pulse.
 - In respect of whether £10m in balances was enough, the auditors said that they would never set a target figure as every council was unique and facing different challenges.
 - When asked about their view on school balances, the auditors said that the money was earmarked and the council needed to consider how much to have in contingency.
- 2.6 The auditors also informed the sub-committee that as part of their 2005/06 programme they were doing work on regeneration and how to support what was being planned by the council. This work was due to start in February 2006 and should be completed by autumn.
- 2.7 There was discussion around strengthening the housing benefits system. The auditors identified training and reducing staff turnover as important for this and said that the council's client unit needed to be able to identify and rectify errors. Officers informed that an internal audit had identified errors in 2004/05 and as a result there had been changes to the procedure manuals and to the performance management framework, and training of staff in November and December 2005. Due to the timing of these, some errors would therefore be identified in the 2005/06 audit letter.
- 2.8 There was also discussion about incentives for the contractors to identify areas of the housing benefits system that needed addressing. Officers said that the council was required to carry out a level of check and there was some expectation that the contractor would as well. Officers also informed that the BVPI for housing benefits had changed the repayment of subsidy for error and allowed for some level of overpayment, although the margin was tight. Officers undertook to provide the sub-committee with a briefing note about this issue.
- 2.9 Members commented on the council's performance in respect to the environment service and the diversity within the service. Officers explained that the score for the environment service included planning (including minor/major/other applications) as well as traditional environmental targets such as recycling - which was an area where the council was not meeting the target. If the council was not reaching a certain level of performance on one indicator the overall performance score for the service would be limited.

- 2.10 The sub-committee raised points about the areas that the auditors had recommended for further development (paragraph 17). The auditors clarified that they were referring to a projection of reserves and balances when they recommended modelling the medium-term strategy around balance sheets. They also clarified that 'stakeholders' was referring to anyone who used the council's financial statements. Some members suggested that this would be of little interests to constituents, and it was of most importance that the statements made sense to the elected member and was presented in a way that was understandable. Officers informed that the government view was that such information should be shared with the public, and the council was considering options for how this could be achieved.
- 2.11 There was discussion around the comments in the audit letter about the customer service centre, particularly the suggestion of agreeing the model for reporting the benefits from the reengineering of its business processes and introducing arrangements to track CSC benefits and improvements. The auditors told the sub-committee that their review was a snapshot in time and had been carried out early in the process. The council was now seeing the results coming through. The Finance Director said he was of the opinion that the standard business planning model was appropriate and agreed that there needed to be more transparency.
- 2.12 In respect of the decent homes standard, the auditors were asked about whether the base case for stock retention was the right approach. The auditors said that it was not appropriate for them comment on this as the council had been through a process to form a judgement, and had taken a political decision. In the 2003/04 letter the auditors had not been entirely happy with the council's progress towards the standard, and the purpose of the comment in the 2004/05 letter was to assess whether progress was being made. In the next audit they would be looking at whether there were proper processes in place to meet the decent homes standard.
- 2.13 The auditors said that they had recently looked at whether the council had made the improvements in the planning department mentioned in paragraph 32 of the letter. They had evidenced improvements which seemed to be making a difference. Members also briefly discussed the influence of staff turnover on their constituents planning applications; some members suggested that they had noticed more consistency now in following through an application.
- 2.14 The auditors explained that the reference to outstanding queries in paragraph 44 was explained in paragraph 67. The queries were mainly to do with planning applications and there was nothing of concern that needed to be drawn to the sub-committee's attention.
- 2.15 The auditors also confirmed that they were confident that the departments that had been producing a lower quality of working papers would improve [refer to paragraph 46 of the annual audit and inspection letter].
- 2.16 There was a discussion around the comments in paragraph 38 about ensuring the council has robust arrangements for performance indicators (PIs) and the additional demands from the increased number of PIs in the new audit arrangements. Officers informed that the PIs that were reported in quarterly performance reports were only a snapshot across service levels and were subject to annual review as part of the business planning process. The numerous lower level departmental PIs had were important in providing checks and balances to enable departments to manage their service and identify any problem areas.

- 2.17 Members then questioned why additional PI demands were required if these were considered adequate. The auditors said that they had reviewed the Best Value Performance Indicators (BVPIs) as well as some departmental PIs (non-BVPIs) and had found that some of the latter needed amending. It was important to get these right first time. Officers agreed with this statement, and added that there had been a change in the audit requirements with more reliance being placed on the quality of processes.
- 2.18 The sub-committee asked whether all means of income collection was being used by the council, such as committal to prison as a deterrent for those who were wilfully avoiding payment council tax. Officers confirmed that the council used committal as part of its process but the magistrate had been reluctant to go down this route. It was important to justify the costs of collection.
- 2.19 Questions were also asked about what the council was doing to strengthening its financial arrangements for detecting fraud. The auditors said work was being done and they had a meeting with officers the following week to discuss this. It was noted that regardless of efforts in this area, anti-fraud initiatives were always commented on in the annual audit and inspection letter.
- 2.20 In response to further questions, the auditors said that:
- the DA report on the equalities and diversity review would be issued to the council within the next 10 days.
 - the SAS 610 report would be seen by those charged with governance.
 - the school balances would include unspent minor capital allocations as well as revenue balance. The auditors kept an eye on whether school balances were adequate, but required no particular balance figure and had no concerns with the council's school balances at the moment.
 - the suggested improvements in relation to user focus in paragraph 19 had arisen because some people had felt that they did not have an opportunity to get involved with the council.
- 2.21 The Chair thanked the auditors for their attendance and input at the meeting.

RESOLVED: That Executive:

1. is alerted to the importance of the District Audit report being prepared for autumn 2006 about project management arrangements and delivery of the capital investment plans for regeneration.
2. monitor the effects of improvement measures introduced in late 2005 in respect of the housing benefits system.
3. satisfy themselves that adequate systems are in place to assess the achievement of the basis on which Council Assembly made the decision to approve the CSC, with particular reference to making the CSC self-financing by 2008/09.
4. receive a report before the end of 2006 on the current work being done to strengthen the financial systems against fraud.

3. BUDGET 2006/07 [pages 35-59]

- 3.1 The Finance Director introduced the report. He updated the sub-committee about the outcome of the Executive meeting of 31 January 2006, explaining Executive had not yet agreed a budget and council tax proposal for 2006/07 as it wanted further information from officers. Executive had rejected approximately £1.6m in savings on the basis that they impacted on front-line services but had agreed other savings options of approximately £1.1m. Executive had also asked officers to consider other options to further reduce the 2.1% council tax increase now required for a breakeven budget. The Director added that additional efficiency savings would not be without risk. A further late report would be going to the February 14 2006 Executive meeting.
- 3.2 The sub-committee discussed the proposed saving for “review daycare to reflect current demand” that had been rejected by Executive. Officers explained that the saving had been based on the assumption that demand for the service would not increase, and thus reflect a reduction in the commitment built into the base. However Executive believed that it was more prudent to leave the budget in as the potential non-availability of the budget could lead to a reduction in service.
- 3.3 There was also a brief discussion about the reduction in the frequency that waste was collected. The officers present confirmed that they personally were not aware of any consideration of this matter.
- 3.4 The Director commented that it was unrealistic to assume that a council could aim for the same level of savings annually, as had been assumed with the Gershon efficiencies. This approach was taxing on organisations, particularly if there had been a couple of years of good achievement and it was working against putting properly structured medium and long term efficiency programmes in place (e.g. for accommodation). There was likely to be increased pressures in 2007/08 and the council needed resilience in its budgets moving forward.
- 3.5 The sub-committee asked for the Director’s opinion about how the risks in relation to schools had changed under the new school funding regime. The Director replied that the new funding arrangements presented some new challenges to all Local Education Authorities, especially because of the role of the Schools Forum in managing the grant awarded. Furthermore, the disparity between the General Grant awarded and the DSG award was bound to have some impacts on priorities within the council that will need to be reconciled over time, not least in the context of the schools balances currently standing at some £12m. The Building Schools for the Future agenda added further complexities.
- 3.6 In relation to the appropriate level of general balances, members asked whether risks associated with large regeneration projects could be offset with developers and insurers. The Finance Director agreed that these projects invariably offer some opportunities but transfer of risk to third parties would not normally be without cost. These needed to be weighed up within each evaluation.
- 3.7 Officers confirmed that in respect of 2005/06 the only ear-marked use on the general fund balances was the Peckham Pulse restoration.
- 3.8 Members asked whether the existing base budget could be used for the partnership for older people pilots. Officers said that it was not so straightforward, and the council needed to spend the money on what the grant was for.

- 3.9 Members also raised concerns over the comment that the government had given “some assurance” in relation to the “management, transfer, support and servicing of debt” if the Old Kent Road waste facility site was transferred to the Mayor. Officers informed that while this was not a binding assurance, it was considerably better than the position the council had faced initially. There had been the promise from DEFRA of additional PFI credits if the transfer did take place in order to help cover council costs. The council would also be setting aside the original capital allocation for the redemption of debt in the event of the transfer of function not being completed.
- 3.10 With regard to prudential borrowing for the acquisition of the Old Kent Road site, officers informed that this was likely to be completed during the course of 2006/07. The Finance Director would determine the timing with regard to the market conditions, as advised by the Strategic Directors for Regeneration and Environment and Leisure.
- 3.11 There was a brief discussion around the opportunity cost for setting aside the capital receipts for the OKRA project. Officers commented that the funds to be set aside would not otherwise been earning interest because the receipts would have been spent. The opportunity cost was justified because if the transfer took place without the precautions Executive was taking, the cost to the council would potentially be much larger.

RESOLVED: That Executive:

1. is encouraged to make every effort to get commitment from the government that if the Old Kent Road (OKRA) waste facility site were to be transferred to the Mayor, then all burdens of debt from the purchase of the site would be transferred to the GLA.
2. ensures there is clarity about the internal powers under the council’s constitution for authorising prudential borrowing for the OKRA site (i.e. whether Council Assembly authority is required for the borrowing).

4. **WORK PROGRAMME 2005/06** [pages 60-72]

- 4.1 The sub-committee considered its work programme for the remainder of 2005/06.

RESOLVED: That the work programme for the remainder of 2005/06 be noted.

The meeting closed at 10:10pm.

CHAIR:

DATE: