MINUTES OF THE MEETING OF THE CORPORATE COMMITTEE HELD ON TUESDAY, 5TH FEBRUARY, 2019, 7.00 - 9.30 pm

PRESENT:

Councillors: Isidoros Diakides (Chair), Dana Carlin (Vice-Chair), Dawn Barnes, Makbule Gunes, Mike Hakata, Alessandra Rossetti, Daniel Stone, Zena Brabazon and Seema Chandwani

53. FILMING AT MEETINGS

The Chair referred Members present to agenda Item 1 as shown on the agenda in respect of filming at this meeting, and Members noted the information contained therein.

54. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS (IF ANY)

Apologies for absence were received from Cllr Blake, Cllr Culverwell and Cllr Morris.

Cllr Hakata gave apologies for lateness.

55. URGENT BUSINESS

None.

56. DECLARATIONS OF INTEREST

There were no declarations on interest.

57. DEPUTATIONS / PETITIONS / PRESENTATIONS / QUESTIONS

None.

58. MINUTES

The minutes of the meeting of 3rd December were agreed as a correct record of the meeting.

59. HOUSING BENEFITS SUBSIDY CERTIFICATION REPORT

Clerk's Note – The Chair agreed to amend the order of the agenda so that the Housing Benefits Subsidy Certification Report was taken as the first substantive item. The minutes reflect the order that each item was discussed, rather than the order on the published agenda.

The Committee received a report from BDO which provided an update on the main issues arising from certification of the housing benefits subsidy for the financial year ended 31st March 2018. The report was introduced by Lee Lloyd-Thomas and was included in the agenda pack at pages 47-55. The following points were noted in discussion of the report:

a. The Committee was advised that the housing benefits subsidy process provided an allowance each year to allow local authorities to recover overpayments resulting from local authority errors and administrative delays, through a DWP subsidy. However, this allowance was capped to provide subsidy in full for overpayments where the total did not exceed 0.48% of total benefits, provided for subsidy at only 40% where these overpayments did not exceed 0.54% of total benefits, and penalised local authorities by not providing any subsidy for these overpayments which exceeded 0.54% of total benefits.
b. As a result of clearing a large part of the backlog in 2017/18, the Council had created a higher than usual number and value of overpayments arising from local authority errors and administrative delays, which exceeded the 0.54% threshold. As a result, the Council had not been able to recover any amounts for the £1.445 million local authority error and administrative delay overpayments in 2017/18.
c. The Committee was advised, that ideally, the Council should seek to minimise such errors so that these fell below the 0.48% threshold to be able to recover those amounts in full through subsidy from DWP. BDO advised that they welcomed the fact that the Council had taken action and obtained external support to clear many of the backlog cases and claimant changes.
d. In discussions with management, BDO advised that the current position (to 14 January 2019) suggested that the overpayments total to date of £577,504 was only 0.30% of benefits awarded and should be recoverable in full this year. However, this was subject to continued good performance for the remainder of the year.
e. The certification process was set by DWP and required that BDO test an initial 60 benefit cases in full. Where an error was advised in any of these cases, and for all error types found in the prior year, BDO then tested a further 40 cases with similar characteristics to the identified error. Whatever the percentage rate of error was within those 40 cases, this was then extrapolated across the board to determine amount of subsidy claimed. This year, this resulted in 29 separate error types where an additional 40 cases were tested.
f. Overall, the auditors advised that the direction of travel showed a significant improvement in 2017/18. Over the duration of the year, the Council had more than halved its backlog. BDO suggested that with further work to clear the remainder of the backlog in 2018/19, it was hoped that the Council would receive its full subsidy for 2019/2020.
g. In response to a question around delays, officers advised that the KPI in relation to new claims was 20 days, current performance was 22 days. There were around 5000 cases currently in the backlog, but officers advised that there were around 3000 new cases per week.
h. The Committee sought clarification in relation to the use of an external company, called Merritec to help clear the backlog of cases. In response, officers advised that experienced staff were needed to clear the backlog and that employing in-house staff had proven difficult over the years, particularly as it took around nine months to train a Benefits Officer. The current establishment

for the team was 38 FTE but the current number of staff was 30. Savings from the vacant posts covered the cost of the contract. The cost of the contract with Merritec was around £250k per year.

i. In response to concerns about the use of external staff/contractors rather than Council staff, officers set out that this was a much more efficient way of dealing with the backlog and that attempts to employ temporary staff directly was one of the reasons for the number of mistakes which had caused the historical backlog. Officers advised that part of the reason that it was difficult to recruit in-house staff was because the Council paid less than some other boroughs, as well as the uncertainty caused by repeated delays to the roll-out of Universal Credit. Officers advised that the award of the contract was done following a mini-tender process.
j. The Committee sought assurances about how effectively the Council was using its Discretionary Housing Payments to help those in need. In response, officers advised that the DHP was used on a case-by-case basis and that the full allocation was used each year. Officers cautioned that the DHP funding from the DWP got less and less each year.

Clerks note – Cllr Hakata arrived at the meeting.

k. In response to a question, officers advised that the backlog was primarily due to a lack of staffing resources in that area to deal with the caseload. One potential source of overpayment was identified as a recipient failing to declare a change of circumstances, such as a new job. A process of data matching between DWP and HMRC was undertaken to identify such cases.
l. In response to a request for clarification on the total losses that the Council had incurred, BDO advised that they had identified £500k of additional overpayments that were not picked up in the self-report and that this was on top of the £1.4m in cases identified which exceeded the 0.54% threshold. This resulted in around £1.9m of additional costs, which would have to be paid for from the General Fund.
m. In response to a question around the audit cost, BDO advised that the audit fees were around £38k. The amount of the fee was set by government.
n. The Committee enquired whether there was a plan in place to reduce the Council's reliance on Merritec, with a view to them being used to train up in-house staff. In response, officers reiterated that the future caseload would be heavily impacted by the introduction of Universal Credit and it was anticipated that carrying a significant vacancy rate would hopefully prevent redundancies further down the line.
o. The Committee sought reassurances around what happened to the individual claimant when an overpayment was made. In response, officers advised that the usual process was that standard deduction of £11.10 per week from a claimant's Housing Benefit. If the person in question was not a benefit claimant then the case would be passed on to another team to chase up repayment. In response to a follow up question, officers advised that they were not aware of any case where a person had been made homeless as a result of failure to repay an overpayment. The Committee emphasised the need for a link to local voluntary sector organisations who could assist with housing arrears.
p. The Committee expressed concern with the lack of a facility for claimants to make appointments to speak to council staff in person to go through the

paperwork. It was suggested that this may contribute to delays and the additional costs associated with overpayments.

q. Officers agreed to circulate benchmarking marking data in relation to the Council's performance against other local authorities. **(Action: Amelia Hadjimichael).**
r. The Committee also requested that a follow up report be brought back to a the Committee at the halfway point in next year's collection process, which provided an update on efforts to reduce the backlog and further benchmarking with other local authorities on overpayments. **(Action: Amelia Hadjimichael).**

60. TREASURY MANAGEMENT STATEMENT 2019/2020

The Committee received the Treasury Management Strategy Statement for 2019/20-2021/22 for comments, following its submission to Overview and Scrutiny Committee and before it was presented to Full Council for approval. The following was noted in response to the discussion of the statement and the accompanying cover report:

a. The Committee sought clarification about who the Council borrowed money from and the interest rate that was being paid. In response, officers advised that the £670m forecast borrowing over the next three years would be done through a combination of loans from the Public Works Loan Board (PWLB) and loans from other local authorities. Officers advised that new loans from the PWLB were budgeted at an average interest rate of 3%, while loans from other local authorities were 1%. However, loans from other local authorities were only taken out for 1 year and effectively had a variable interest rate, whereas loans from the PWLB were up to 50 years in length and a fixed rate. In response to a further question, officers advised that the length of a PWLB loan would be partly determined by the spread of existing debt and the date at which those loans matured.
b. The Committee requested that future treasury management reports be broken down by the capital spend allocated to each service area. **(Action: Thomas Skeen).**
c. In response to a query, officers advised that around the majority of newly introduced capital schemes were self-financing, i.e. the net cost to the Council was neutral, either because there was a revenue generated to offset the interest or because it generated a saving elsewhere.
d. In response to a question around the potential for the Council to pay off its LOBO loans, officers advised that it was ultimately the decision of the Section 151 Officer as to whether this was in the Council's interest. Finance officers were continuing to monitor the situation but had not yet received an acceptable offer. In response to concerns about what would happen if the lender suddenly increased the interest rate, officers advised that it was not in the interests of the lender to do so unless interest rates rose significantly, as the Council could refinance the debt using another provider.
e. In response to a question around recent cases where local authorities had taken particular lenders to court in relation to LOBOs, the Committee was advised that these court cases were in relation to a specific type of LOBO which linked the interest rate to the LIBOR rate. The case related to taking specific banks to court who had been found guilty of manipulating the LIBOR rate. The LOBO loans that the Council had taken out were different and

therefore not related to the legal cases in question. Officers advised that it was very unlikely that the Council would be able to walk away from its vanilla LOBO loans and suggested that the interest rate paid was similar to the rate that would have been available from the PWLB at that time.

f. From an external audit perspective, BDO advised the Committee that their role was to assess whether the LOBOs were legal and whether the decision to take them out was rational. BDO advised that the loans were both legal and rational, and that including the repayment holiday the LOBOs may have been cheaper that an equivalent PLWB loan.
g. The Committee sought assurances about whether the Council had a strategy in place to ensure that it held a diverse range of income streams across the borough. In response, officers advised that the Council maintained a significant commercial property portfolio. The Chair enquired about whether the Council could play a greater role in community wealth building through loans and investment in local enterprises. In response, officers acknowledged that the Council had a role to play but cautioned that from a finance perspective the primary concern would be that any default on loans or investments would result in a direct cost to the Council's General Fund.
h. In relation to a query about the relationship between forecasts and borrowing limits, officers advised the Committee that the Council could only afford to borrow what it was able to repay through its revenue budget. The Committee was advised that the Council was well within its debt ceiling for each of the years covered by the strategy.
i. In relation to a question around PFI, officers reiterated that the permissible level of borrowing was determined by the overall operational boundary and advised that boundary included PFI and leases. The Committee was advised that there was only one historical PFI, with Jarvis, in relation to a secondary school and that the Council was not looking to take out any further PFIs. Upon further discussion the Committee was advised that the Building Schools for the Future programme subsumed the PFI and that it had basically been converted into straight forward borrowing debt. The Council no longer paid any maintenance costs on the school as part of a PFI.
j. The Committee sought clarification as to whether the borrowing costs were included in the figures for the capital programme. In response, officers advised that borrowing costs were reflected in the overall MTFS but that they were not itemised on a line-by-line basis. Officers set out that capital schemes had three types of funding; external funding (such as grants), self-financing or the Council had to borrow money to fund them.
k. The Committee suggested schemes that were self-funding contained the greatest element of risk. Officers advised that each of those schemes would involve a business case and the risk would be reflected in the complexity of the business case.
l. In response to a question, officers advised that borrowing was staggered to ensure that capital funding was available when it was needed. Otherwise, the Council would have a lot of cash that it would need to invest somewhere.
m. In response to a question around whether the Council's Minimum Revenue Provision for pre 2008 expenditure at 2% was sufficient, officers advised that it was not dissimilar to other council's and that they were satisfied with the level.
n. The Committee confirmed that they endorsed the Treasury Management Strategy Statement and agreed for its submission to Full Council for approval.

RESOLVED

That the proposed Treasury Management Strategy Statement 2019/20 – 2021/22 was agreed and recommended to Full Council for final approval.

61. AUDIT PROGRESS UPDATE

The Committee received a report from BDO, which provided an update on the progress of the work programme for the external auditors for 2018/19. The following was noted in response to the discussion of the report:

a. In response to concerns raised in relation to the Council using an old version of SAP, and a consequent lack of an IT ledger system and control points, officers advised that discussions were underway with a software developer to build a patch on to SAP and improve its functionality. The Head of Pensions agreed to bring an update back to the Committee at its next meeting. **(Action: Thomas Skeen).**
b. In relation to the current objections to the Statement of Accounts, the Committee requested to see a copy of the housing maintenance objection, as well as the auditors judgement when it was available. BDO agreed to send the original objection to the clerk for circulation to the Committee. **(Action: BDO).**
c. In relation to a request for further information on the reasons behind an increase in audit costs, BDO advised that the fees were increased by around £20k to reflect a number of additional areas of work undertaken. The Committee was advised that some of this work related to an inaccurate dataset being sent to the valuer in relation to buildings and land. Further areas of work included an underestimation of all of the costs accrued for care placements, largely due to delays in payments, which resulted in bills being higher than estimated. The Committee expressed concern with these errors and in particular the potential for creating further budget pressures. BDO advised that officers were working to address these issues. It was noted that work was being done to ensure that more accurate valuation reports were compiled in future.
d. The Chair requested further information in relation to the review of the pooling of housing capital receipt returns and the specific issues involved. **(Action: BDO).**
e. The Committee expressed concern with some of the issues raised in the audit report and, in particular, the fact that this was the first time that they had heard about them. The Committee suggested that, in its role as the Committee responsible for audit, it should receive information at an early stage and requested that a process be developed to ensure this. The Committee requested that it receive a full report on the two issues that were raised in relation to the asset register and the underestimation of care costs. **(Action: Thomas Skeen/BDO).**

RESOLVED

That the audit progress report was noted.

62. NEW ITEMS OF URGENT BUSINESS

N/A

63. DATE AND TIME OF NEXT MEETING

26th March

CHAIR: Councillor Isidoros Diakides

Signed by Chair ………………………………..

Date …………………………………