Lincolnshire COUNTY COUNCIL
Working for a better future

AUDIT COMMITTEE
23 NOVEMBER 2015

PRESENT: COUNCILLOR MRS S RAWLINS (CHAIRMAN)

Councillors Mrs E J Sneath (Vice-Chairman), N I Jackson, Miss F E E Ransome, S M Tweedale, W S Webb and P Wood

Councillors: attended the meeting as observers

Officers in attendance:-

Debbie Barnes (Executive Director of Children's Services), Tony Crawley (KPMG), David Forbes (County Finance Officer), Glen Garrod (Director of Adult Care), Judith Hetherington Smith (Chief Information and Commissioning Officer), Dr Tony Hill (Executive Director of Community Wellbeing and Public Health), Tony McArdle (Chief Executive), Pete Moore (Executive Director of Finance and Public Protection), Lucy Pledge (Audit and Risk Manager), Richard Wills (Executive Director for Environment and Economy) and Mike Wood (KPMG)

29 APOLOGIES FOR ABSENCE

There were no apologies for absence.

30 DECLARATION OF MEMBERS' INTERESTS

There were no declarations of interest at this point in the meeting.

31 MINUTES OF THE MEETING HELD ON 21 SEPTEMBER 2015

RESOLVED

That the minutes of the meeting held on 21 September 2015 be signed by the Chairman as a correct record.

32 CHIEF EXECUTIVE AND EXECUTIVE DIRECTOR BRIEFINGS ON ASSURANCE ARRANGEMENTS

The Audit Committee played a vital role in the Council's governance and assurance arrangements, and to help the Committee undertake this role effectively, members received a briefing from the Chief Executive and each of the Executive Directors in order to provide the Committee with some insight on how the potential changes and financial challenges ahead may impact on assurance arrangements.

Briefing by the Chief Executive, Tony McArdle

Members were advised that it was very difficult to start a discussion without talking about money, and how could the authority make the money go as far as it could whilst still meeting the objectives of the Council. The expectation was they the authority was about half way through the level of spending reductions it would be expected to make. £130m had already been taken out of the budget, and there may still be another £130m that would need to be taken out, possibly more if the awaited settlement was unfavourable. There would be a need for some very difficult budget decisions.

The Council's ability to balance the budget falls into four broad areas:

- Demand management – managing the demand for services, by being better at presenting information upfront, working with the NHS to help people to stay in their homes for longer, helping them to not have a crisis. This would rely on partnership working, and the Council could not control that agenda, but could influence it;
- Costs – reduction in the costs of providing services;
- Efficiencies – reducing the inefficiencies in the way that the Council operated;
- Income – this was what was received from government/through council tax/business rates, fees and charges, etc;

Over the last five years, the Council's income has been reduced, and there had been a need to make some cuts in services. A lot of work had already been done in demand management so the Council could meet people's needs at an earlier stage in the process. The authority was a substantially more efficient organisation than it used to be. It had to become more efficient, more productive, and there had been changes in the way that staff were managed. There was a need for better use of technology which could lead to an increased productivity in the work force.

What underlined most of this was risk, and there would be a need to take more risks. There was a likelihood that more things would go wrong more often, but the authority should be able to manage it and the risk would be at a low level. It was also likely that things would be done less efficiently, less effectively, less quickly as the authority would not have the resources to respond as it previously did.

The organisation could become less resilient, as there would be fewer resources behind each service, but while still doing the same level of work. Service areas would be staffed to the lowest level of demand, and this would be reflected in the time it took for tasks to be completed. When there was a peak in demand for a particular service, there may be a need to use external staff such as agency staff. There would be a need to monitor staff for signs of stress to ensure that officers were not becoming stressed beyond what was sustainable.

At the end of this process, the council would be operating with around 60% of the budget it had at the start of the decade. The wage bill for the authority had been maintained at 27% of the total budget. Members were informed that if every single member of staff had been made redundant, this would still not have produced anywhere near the required amount of savings that the authority needed to make. Most staff were paid the same as they were 5-6 years ago. The private sector had always been very competitive in terms of pay, but this had changed now, whereas staff in a local authority had received wage increases of approximately 1% over 5 years, over the same time in the private sector wages had risen by approximately 12%. The authority was starting to lose staff to the private sector, and so there would be challenges ahead when the authority found it difficult to recruit staff.

It was queried whether there was a need for more use to be made of resources such as the LEP (Local Enterprise Partnership). Members were advised that the authority made as much use of the LEP as possible, as the income it had brought into the County had been very good. Some authorities were opting for a trading model, but this meant the authority was subject to all the issues of the private sector, and there would be issues around viability in future years. Lincolnshire had always been wary of trading operations. There were other options, such as selling assets, but caution against a 'fire sale' was expressed as once the assets had been sold any future income was lost. It was commented that there was a trading interest in ESPO, but there was no commercial risk involved, and so it was queried whether the authority would be looking to expand its trading operation.

Members were provided with the opportunity to ask questions in relation to the information presented to them and some of the points raised during discussion included the following:

- Demand management was key, as well as how expectations would be managed. It was queried how this message would be got out to people to try and limit the demand. The Committee was advised that different channels would be used to get the information out, such as through the website. There were plans to make more use of online platforms. There would be more work to keep people out of hospital or out of crisis and prioritise spending on areas of immediate risk such as adult and child safeguarding;
- It was commented that getting a message out regarding the costs of services could have a reputational risk;
- It was not clear yet how the authority would get through the next four years, but there were other authorities that would face problems before Lincolnshire. There was a lot of talk in local government about what failure would look like with these financial difficulties. Service failure was a high risk for every local authority. The LGA believed that there would be 12-14 local authorities that would be unable to set a balanced budget soon;
- There would be a dialogue with the public and an article in County News that set out the broad picture of the hard times to come. This would be part of the engagement regarding potential areas where there may need to be cuts. The provisional budget would be set on 5 January 2016. It was important for members to recognise that the only way to balance the budget over the next four years would be to make substantial reductions;
- The living wage would be another cost pressure, and a lot of organisations would struggle with this as it could add between £30-37m to the budget by 2020;
- Concerns were raised that the authority seemed to moving towards a situation where there was a preparedness to put life and limb at risk in order to balance the budget. Reference was made to mental health services, and the potential to reduce mental health provision.

Briefing by the Executive Director of Adult Care, Glen Garrod

Over the last five years, income and income generation had been a priority. In the last year, the authority had received an additional £4.6m of NHS funding through the Better Care Fund, which was a major source of additional income for the Council.

The NHS in Lincolnshire was operating at a significant deficit, with the acute trust having a deficit of around £70m, and the CCG's were being asked to use up their resources to fill in the gaps. It was thought it would be difficult to negotiate additional funding from the Better Care Fund for next year. In Adult Care there would be work to look at how the number of people requiring expensive care packages could be reduced, for example by working on fall prevention.

Over the last four years, Adult Care had become a highly efficient service, and was relatively unique nationally. The staffing complement in the directorate had been reduced from 1199 FTE to less than 451 FTE. The living wage would have a big effect on the external home care and residential service budget in particular, which in 2016/17 could cost the council in excess of £4m.

Nationally there were concerns about system failure due to lower levels of staffing and increased demand, where hospitals could not receive any more emergency admissions, and this would create a ripple effect leading to loss of A & E capacity across several hospitals in the same area.

There was the opportunity now to create more stability, and to create less risk in some areas of activity by working with health partners, but change also created risk. There would be a need for different skills sets for example, in Adult Care quality assurance and commissioning were increasingly as relevant as managing services as there were fewer in-house with over 92% of the Adult Care budget spent on external services. Officers were still not sure that ministers understood the impact that policy changes were having on vulnerable people.

In response to a query, members were advised that the three main risks for adult care were:

- That the authority would not be able to meet the legitimate and legally required needs of the most vulnerable. The introduction of the Care Act in April 2015 changed how the Council managed the gateway to adult care. This meant more people were expected to come for advice and assistance against an increasing budgetary pressure that the council could not continue to support;
- That the integration with Health would not progress fast enough or securely enough. The integration with health would deliver better outcomes for people, but it was not certain that it would save money in Adult Care;
- Workforce supply and the quality of staff. Some 10,000 staff were currently employed in the social care sector in the county, and it was very difficult to recruit, particularly in relation to nurses. There was a real danger that the nurses who ran nursing homes would move to the acute trust.

Concerns were raised that there was no longer a valid vocational training route in the nursing profession. However, people were beginning to realise that this was an issue, and it was hoped to work with the LEP on this. Work was also taking place with partners including Universities and further education colleges. It was reported that Bishop Grosseteste University had been awarded 120 places for an apprenticeship degree programme in health and social care.

It was queried how the risks from managing partnerships would be managed. Members were advised that partnership working was fraught with difficulties and a significant drain on resources. It was acknowledged that the right health and care system would never be in place unless all partners worked together.

A lot of Public Health interventions were at risk as they did not give immediate effects, and if the authority stopped doing things in terms of prevention work an effect on NHS services and adult care services would be seen in a relatively short space of time. This was about good demand management which was effective in reducing unnecessary costs and helping people to remain independent.

In responding to a query from members, it was noted that some of the risks of a bad winter would include fewer staff available due to illness or injury. If it was a very bad winter and transportation was affected it could become very serious if care workers were not able to get to people.

There was a good level of assurance that in Adult Care services were commissioned properly and the controls which were in place were robust.

<u>Briefing by the Executive Director Children's Services, Debbie Barnes</u>

There would be some specific challenges in relation to children's services, particularly around demand management as nationally children's services was seeing increased demand for services and this was being mirrored locally. The cuts to legal aid were also having an impact on increased demand. There was also increasing amounts of case law which was increasing the authority's statutory duties, for example housing responsibilities and special guardianships. It was reported that there was much less discretion in terms of being able to divert from policy.

Lincolnshire had a low spend compared to other Local Authorities in relation to children's safeguarding, due to strong preventative services. The risk was that the authority may not be able to continue to provide preventative services.

The introduction of the living wage and market failure were also big issues.

In terms of the national policy context in relation to schools, the authority's statutory duties had not changed but funding had reduced.

A project had just been set up to look at the feasibility of special schools, and to examine whether they could become more generic so they could meet the needs of their communities and stop children having to be transported across the County. It was thought there could be a need for more places in response to demographics.

<u>Briefing by the Executive Director Environment and Economy, Richard Wills</u>

It was reported that a reasonable capital settlement for highways management and maintenance had been received this year. There had been a lot of investment through the capital budget; the revenue budget was only just adequate, but the financial constraints of the Council were understood. The current risk was that the service area was carrying over 30 vacancies, in preparation for the unknown future budget. Under-staffing was causing some delivery problems, and the service was not as responsive as it should be.

The Committee was advised that Highways were struggling to find drivers for the gritters. There would be a need to look at different way of doing things. There was no doubt that the revenue budgets would reduce. The service was unlikely be as responsive or resilient following budget reductions but work on a future operating model may be able to minimise any adverse effects.

In terms of Highways projects, the East West Link was progressing well. A start had been made on the Grantham Southern Relief Scheme, and it was hoped that the authority would get the go ahead to progress the scheme across the valley in due course. It was reported that this scheme had a complex package of finance. Preparation work was also taking place for Spalding, and it was noted that schemes were becoming increasingly private sector led.

The Committee was advised that the authority was still awaiting the outcome of the public inquiry for the Lincoln Eastern Bypass. There was concern that the inspector may not report back their findings as quickly as originally thought. There was a risk associated with timing, as the authority would not be allowed to carry out site clearance in the spring.

In terms of public transport and buses, there had been a 30% reduction this year of financial support to bus operators, in terms of the subsidised network. Good progress was being made on the Total Transport project. There was a high possibility of having much less support for buses in the future.

Waste management was demand led, when the district councils kept collecting waste then the County had to keep disposing of it. The hope was that the private sector would want to build some more commercially led facilities. The amount of waste produced was proportional to the number of households.

In relation to economic development, the Local Enterprise Partnership (LEP) would be of great importance, and it was noted that the Greater Lincolnshire LEP was considered one of the best formed LEP's in the Country. It was also considered one of the best represented by the private sector as well as representatives from the County Council, and had been successful at securing a disproportionately large amount of money for Lincolnshire. It noted that there was no duty on the Council to spend money on economic development, but it would provide income for the County Council (increased business rates) and investment in Lincolnshire's economy may be beneficial for the Council.

The Boundary Commission would be making a decision on the size of the council for the future. Also there would be a need to implement the scrutiny review, and that it was likely that changes in Committee Structure would take place after the election in 2017.

It was noted that as Monitoring Officer, the Executive Director had spent many hours dealing with complaints, but these had reduced in the last 6 months. It was suggested that this was due to the inclusion of Respect within the Members Code of Conduct, as well as the appointment of Councillor Mrs Brockway as Chief Whip, which had changed the dynamic of the Council.

Organisational change was an issue which needed to be tackled, and there was a need for more collaboration across commissioning arms once the budget settlement had been received. It was commented that there was definitely room for improvement in this area, and there would be a need to work with HR on how so many different changes would be managed. For those that were left in the organisation, the changes could be significant and it was thought that officers would come up with some transformative changes. However, there may be a need to stop doing some things. There would be a need to work out the best way to use the money the authority did receive.

Members were advised that only 30% of the bus network was subsidised by the County Council, and the rest was commercially viable. If the development outlined in the Central Lincolnshire Plan happened in an orderly way, there should be a critical mass of people in an area to make the bus services commercially viable. The Council was also trying to introduce more commercially minded thinking.

There would be a need for the Committee to keep an eye on the change management process.

Briefing by the Chief Information and Commissioning Officer, Judith Hetherington-Smith

There were concerns about being able to maintain the range of skills that were needed for the commissioning process. A lot was being asked of a decreasing number of people, and it was a management responsibility to ensure that staff were not pushed too hard. This was now a higher risk than it used to be.

Briefing by the Executive Director Finance and Public Protection, Pete Moore

The financial situation for this council and all councils was similar. The funding from government had reduced in real terms by around 30%, over the next four years this would be about £130m, but would be about £160m when the living wage increase was taken into account if the government did not subsidise this.

Whilst there would be a desire to protect key areas, there could be some areas where there was a need to reduce services further or remove them altogether. Officers were aware that local authorities would face more challenge about what was an appropriate level of service. There was still work which needed to be concluded in relation to the effects of the localisation of business rates.

In order to be able to manage risk, the Council had established and built up a financial volatility reserve. However, by the end of next year, this would be largely exhausted. It was thought that DCLG may try and cap the level of reserves an authority could hold, and there would be some challenges both nationally and locally that would need managing. It was thought there would be less capacity to monitor and manage those risks. The challenge for the Audit Committee would be to judge where its activity was most required.

Any devolution deals would have to be cost neutral. Collaborations between authorities could give an opportunity for efficiency savings.

In terms of public protection, a lot of this work was carried out in partnership with the Police, Health, Ministry of Justice etc whose budgets would also be under pressure, and there may be impacts on services such as youth offending.

Members commented that the picture was bleak, but the Committee would seek assurance on how any changes would be managed. There had been recognition by officers of how difficult the changes would be, there would be effects of taking some risks, of saying no, of asking more of staff than had been asked before, and of not being able to recruit the staff that were needed.

There were always more efficiencies which could be made, and better use could be made of technology. Reactive maintenance was very inefficient, but inefficiencies could emerge through the need for affordability.
Members were advised that training had been maintained and would be maintained. The authority would always continue to provide and offer training, as it would be a false economy not to.

RESOLVED

That the current status of the Executive Directors' assurance regime be noted.

33 UPDATE ON THE AGRESSO PROJECT

The Committee received a verbal update from the Chief Information and Commissioning Officer in relation to the most up to date situation with the Agresso system.

It was reported that some signs of progress could be seen. Shortly after the last meeting of the Audit Committee, where senior officers from Serco were present, Serco took the decision to change some of the staff at the Lincoln office. Not everything which was outstanding had been achieved, but it was acknowledged that the changes had only taken place a short time ago, but there had been some progress. The backlog of queries in relation to payroll was being reduced, and it was hoped that it would be cleared by the end of the calendar year.

There had been signs that October's payroll had been better than September's and fewer new issues had been reported. It was expected to see further improvement in the coming months.

Most of the areas of concern had been related to payroll. Where deductions had been taken from staff, this had been paid to HMRC, however, the information on who had paid what had not yet been transferred across. Serco were putting a lot of energy into fixing the problems. There was still some way to go to fix the issues for council staff, but the issues relating to schools were almost clear.

The system issues were making reasonable progress, but a firm date for when all issues would be resolved by had not been provided. An updated version of the Agresso system needed to be implemented, but officers wanted to wait until the system was more stable before installing it.

The budget monitoring report was 90-95% correct, but the biggest risk from the finance point of view was that the year end was not far away, and it was a statutory deadline. There was a high risk of the accounts not being produced on time.

Members were provided with the opportunity to ask questions to the officers present in relation to the update provided, and some of the points raised during discussion include the following:

- Concerns were raised regarding people who had to enter claims for tax credits as they would not be able to provide evidence of their earnings.
- It was very important that the Committee understood that the Chief Executive and Corporate Management Board were spending time working with senior Serco officers, and have been considering what the right options were to resolve the issues that had been experienced;
- There had been reasonable performance since the new staff took over;
- It was noted that 100 other authorities were using Agresso, so it was queried why so many issues were being experienced;
- It was noted that a lessons learned report would not be produced until all problems had been resolved;
- The implementation was a significant part of the problem, and some of the staff that transferred to Serco had not had as much training as required;
- There were some systems issues, but it was not the system itself;
- Members were still awaiting a figure on how much it had cost the authority to resolve the issues. It was noted that some costs were being recharged on a monthly basis. There was a need for further conversations about what other costs were rechargeable;
- It was confirmed that HMRC had contacted the County Council regarding the failing of the RTI, and officers were working with Serco to supply HMRC with a response;

- The County Council did have a Relationship Manager at HMRC who was providing constructive engagement and was not being adversarial.

RESOLVED

That the update be noted.

34 COUNTER FRAUD PROGRESS REPORT TO 31 OCTOBER 2015

Consideration was given to a report which provided an update on the Council's fraud investigation activities and information on progress made against our counter fraud work plan 2015/16.

It was reported that good progress had been made against the work plan for 2015/16. Officers were currently involved in ongoing work in a number of key fraud pro-active areas and had carried out extensive work on fraud awareness with various stakeholders.

Members were advised that six fraud referrals had been received since April 2015, and there were currently four live cases, and two which were now concluded. Members were guided through the report and some of the points highlighted included the following:

- Significant progress on 2 of the 3 areas carried forward from the 2014/15 Counter Fraud Work Plan;
- The Lincolnshire Counter Fraud Partnership had been fully operational since May 2015;
- The Lincolnshire Counter Fraud Partnership was leading on awareness and promotional work across the county, which would include 'pop up' displays in reception areas and implementing a flexible fraud e-learning module for council employees;
- At the time of writing of the report, £18.5K had been recovered through data matching reports as part of the National Fraud Initiative 2014/15;

The Committee was provided with the opportunity to ask questions to the officers present in relation to information contained within the report and some of the points raised during discussion included the following:

- It was queried whether the Council would have to carry out more work to pursue cases of fraud through the criminal justice system if police numbers were reduced. Members were informed that this was a possibility;
- There were arrangements in place for the authority to recover any costs incurred through prosecutions, as well as compensation arrangements;
- It was commented that the Counter Fraud activity had made a difference, and activity through the whistle blowing campaign had increased;
- Work that had been carried out with Adult Care around financial abuse had been successful;
- It was suggested whether a training session on Counter Fraud could be held for the Committee.

RESOLVED

That the outcomes of the Council's counter fraud work be noted.

35 RISK MANAGEMENT PROGRESS REPORT - NOVEMBER 2015

Consideration was given to a report which provided an update on how the Council's biggest risks were being managed as well as reporting on the progress made in assisting the Council to adapt and change the way it 'thinks' about risk.

The key risks were highlighted to the Committee, and it was reported that a full refresh of the strategic risk register would be carried out in 2016.

RESOLVED

That the current status of the strategic risks facing the Council be noted.

36 INTERNAL AUDIT - EXTERNAL QUALITY ASSESSMENT

It was reported that internal audit within the public sector in the UK was governed by the Public Sector Internal Audit Standards (PSIAS) which had been in place since April 2013. The Standards required a periodic self-assessment and an external assessment at least once every 5 years as part of Internal Audit's Quality Assurance and Improvement Programme.

The report provided the Committee with the proposed scope for undertaking the external assessment. It was reported that the deadline for the external assessment was March 2018, but the County Council had decided to undertake this assessment earlier, and it had gone through the procurement team. Members were advised that all potential suppliers had previously carried out this type of work.

RESOLVED

1. That the proposal to undertake a full external assessment of the Council's Internal Audit Function in 2016 be endorsed;
2. That the Chairman of the Audit Committee and the County Finance Officer be approved as project sponsors.

37 REVIEW OF AUDIT COMMITTEE TERMS OF REFERENCE

(Councillor W S Webb left the meeting at 12.55pm)

Consideration was given to a report which presented the Audit Committee's Terms of Reference for review as this is seen as best practice. Members were advised that the Terms of Reference had been reviewed and updated to reflect good practice guidance as outlined CIPFA's Practical Guidance for Audit Committees which provided local authorities with suggested terms of reference.

RESOLVED

1. That the new terms of reference attached at Appendix C of the report be considered;
2. That the new terms of reference be recommended to the Council for approval.

38 ANNUAL EXTERNAL AUDIT LETTER 2014/15

Consideration was given to a report which presented the opinion of the Council's External Auditor following the 2014/15 external audit of Lincolnshire County Council and the Pension Fund.

Members were advised that the Council's External Auditor had issued an Annual Audit letter which summarised the findings from the 2014/15 external audit and had issued an unqualified opinion on Lincolnshire County Council's financial statements and on the pension fund annual report on 29 September 2015.

In considering the Annual Audit Letter 2014/15, members commented that they were pleased that a good sized paragraph had been included regarding the issues experience during implementation of the Agresso system, and that the comments were very measured.

RESOLVED

That the contents of the report be noted.

39 EXTERNAL AUDIT PROGRESS REPORT

Consideration was given to a report from KPMG, the County Council's External Auditors, which gave an update on the 2015/16 Audit deliverables.

It was reported that the focus was the same as the focus for 2014/15, and the External Auditors would continue to work with officers, and would be reported back to the Committee as and when required.

Members were advised that the current contract would be extended to cover 2017/18, and it was expected that further guidance would be made available.

It was noted that this would not need to be considered by the Pensions Board.

RESOLVED

That the progress report be noted.

40 OUTSTANDING AUDIT ACTIONS REPORT

Consideration was given to a report which provided a detailed update on the status of all overdue high risk agreed actions from previous audits.

It was reported that 10 of the 27 recommendations had been actioned within the agreed timescales. For the remainder, details of delays and revised action plan were recorded. Members were advised that the report went through each outstanding action in detail, and provided revised completion dates.

It was commented that Agresso was not the problem, but the way it had been implemented. It was the implementation of the system which had caused problems. Members were advised that the County Council was the biggest client Agresso had had that wanted to use most functionality of the system.

It was noted that it was important to stay up to date on the issues with adult social care.

RESOLVED

That the status of the listed findings be noted, and that the Committee receive a detailed update in the future on progress made with some or all of the actions.

41 WORK PLAN

Consideration was given to a report which provided the Committee with information on the core assurance activities currently scheduled for the 2015/16 work plan.

Members were provided with the opportunity to comment on the current work plan, and some of the points raised during discussion included the following:

- It was noted that one of the issues with the risks was that the authority did not know what funding would be received in the coming years.
- It was thought that the Committee should keep a watching brief on the Agresso situation;
- The pace of change and volume of change required would be a risk;
- There were concerns regarding the appraisal system, and it was commented that if it was working well staff should be identifying their training needs;
- Some risks would always be risks, and they would just need to be managed;

The Monitoring Officer referred to a matter of principle which had been raised by a particular Freedom of Information (FOI) Act enquiry. The writer had requested details about risk registers held by the Council. The request was resisted on a number of legal grounds allowed by the Act. The main argument was that officers were able to be open and transparent with councillors about risks that could make the Council vulnerable to exploitation. Should there be public disclosure of such risks, it was likely that officers would be more reluctant to bring these to attention. Furthermore, the Council had a lot of risk registers, some of which were public, some of which were for management purposes only. Seeking these out and possibly redacting them for an FOI request would require a lot of staff time. The Monitoring Officer asked the advice of the Committee. There was broad support for the stance taken and members expressed concern that disclosure of these registers could cause a situation where officers were reluctant to provide information to councillors that could be detrimental to the interests of the Council and the public purse.

RESOLVED

1. That the Audit Committee's Work Plan be noted;
2. That the outstanding actions designed to improve the effectiveness of the Committee be noted.

The meeting closed at 1.30 pm