

MINUTE
of
AUDIT & SCRUTINY COMMITTEE

Minute of Meeting held at 2.00pm in the Council Chamber, Council Headquarters, Giffnock on 21 February 2019.

Present:

Councillor Stewart Miller (Chair)
Councillor Barbara Grant (Vice Chair)
Provost Jim Fletcher

Councillor Charlie Gilbert
Councillor Jim Swift

Councillor Miller in the Chair

Attending:

Margaret McCrossan, Head of Accountancy (Chief Financial Officer); Louise Pringle, Head of Communities, Revenues and Change; Barbara Clark, Chief Accountant; Alison Ballingall, Senior Revenues Manager; Michelle Blair, Chief Auditor; Linda Hutchison, Clerk to the Committee; and Ron Leitch, Committee Services Officer.

Apology:

Councillor Annette Ireland.

REQUEST TO RECORD PROCEEDINGS

789. Council Miller intimated that a request had been received to audio record the meeting. The request was approved.

DECLARATIONS OF INTEREST

790. There were no declarations of interest intimated.

CHAIR'S REPORT

791. The Chair reported, and it was noted, that there were no issues which he wished to bring to the committee's attention at this time.

TREASURY MANAGEMENT STRATEGY REPORT FOR 2019/20

792. Under reference to the Minute of the meeting of 22 November 2018 (Page 632, Item 697 refers) when, having considered a report on treasury management activities for the first

six months of 2018/19, it had been agreed to recommend to the Council approval of organisations for the investment of surplus funds and the continuing use of Money Market Funds in light of new Regulations coming into effect from early 2019, the committee considered a report by the Head of Accountancy (Chief Financial Officer) explaining that, in line with the revised Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice 2011, the Audit and Scrutiny Committee were responsible for ensuring effective scrutiny of the Council's treasury management strategy and policies.

In accordance with that requirement, a copy of the Treasury Management Strategy Report for 2019/20 was attached for consideration in advance of its submission to the Council. The Strategy Report included a proposal to amend treasury management practices in accordance with Annex F accompanying the report which listed organisations approved for the investment of surplus funds in respect of which information was provided on related issues such as credit ratings and limits. It was also proposed that a policy on the repayment of loans fund advances, as specified in Section 3.4 of the report, be approved.

Whilst commenting on the overall purpose and content of the report, the Chief Accountant referred to economic background information within it, explained that the same operational approach as before was being followed, and clarified that the report set out the parameters within which the treasury function operated, making reference to mid-year and annual reports to be submitted to the committee. Whilst itemising key sections of the Strategy, she clarified that the Council could only borrow to fund capital expenditure, and that the Prudential Indicators had been established to ensure funding of capital expenditure was affordable and sustainable.

Having drawn attention to Section 3.4 of the report on the Council's policy for the statutory repayment of debt which required to be approved before the start of the next financial year, the Chief Accountant highlighted that Council policy was to repay advances using an annuity method in keeping with previous years. However, she explained that the Scottish Government was currently reviewing legislation with a view to allowing greater flexibility when calculating loan fund repayments, confirming that this would be considered in the coming year and that any planned changes to the repayments schedule would be reported.

The Chief Accountant also referred to the use of reserves to fund capital expenditure which was considered prudent, advantage taken of historically low interest rates available at present, the gradual rise in interest rates anticipated over the next 3 years, and a list provided of the limits for treasury activity which was consistent with previous years. Having clarified that it remained the case that the primary objectives of the investment strategy were security and liquidity, she referred to information provided on the types of investment the Council could use and their associated risk; the importance of investing with bodies with good credit ratings, and related monitoring arrangements.

The Chief Accountant confirmed that she would be happy to arrange further treasury management training for Elected Members if that would be considered useful, requests for which could be made through the Clerk.

The committee, having heard Councillor Swift express the view that the Council's appetite for debt continued to increase at the same time as revenue funding pressures increased and resources were less available, agreed:-

- (a) **to recommend to the Council** that the Treasury Management Strategy for 2019/20 be approved, including the amended list of organisations for investment of surplus funds in accordance with Annex F to the report;

- (b) **to recommend to the Council** that the policy on the repayment of loans fund advances as specified in Section 3.4 of the report be approved;
- (c) to note that requests from Elected Members for further training on treasury management issues could be made and submitted to the Chief Accountant through the Clerk; and
- (d) otherwise, to note the report and related comments made.

LOCAL EXTERNAL AUDIT REPORT ON HOUSING BENEFIT PERFORMANCE AUDIT RISK ASSESSMENT AND NATIONAL EXTERNAL AUDIT REPORT ON HOUSING BENEFIT PERFORMANCE AUDIT ANNUAL UPDATE 2017/18

793. Under reference to the Minute of the meeting of 24 January 2019 (Page 696, Item 762 refers), when it had been agreed that the Head of Communities, Revenues and Change should attend the next meeting of the committee to enable issues raised in relation to the local External Audit report on the *Housing Benefit Performance Audit Risk Assessment* and the national External Audit report on the *Housing Benefit Performance Audit Annual Update 2017/18* to be raised with her, the committee considered a report by the Clerk providing information on the reports. Under the committee's specialisation arrangements the reports had been sent to Councillors McLean and Swift for review. The Head of Communities, Revenues and Change had provided high level comments on the reports and a copy of these comments and a related Action Plan were included as appendices to the report, together with a copy of the local External Audit report.

Regarding the national Housing Benefit (HB) Performance Audit Annual Update 2017/18, it was explained that arising from an audit of 5 councils, which did not include East Renfrewshire, 24 risks to continuous improvement had been identified. Reference was made to the complexity of this area of work, and related developments which had to be planned for and resourced whilst maintaining current service provision. The Audit Scotland report had made reference to the ongoing implications of the national roll-out of Universal Credit (UC); development of the Scottish Social Security Agency (SSSA); and introduction of new tools to improve processing performance and debt recovery which the Council was making good use of. It was highlighted that local focus in recent years had been on planning for the shift from HB to UC which had resulted in restructuring and consolidating benefits services; delivering savings predicated on a forecasted declining HB caseload; and development of staff based within the small team concerned to build future resilience. More broadly across the Council, the focus had been on planning for the wide-ranging impact of the full UC service rollout, the latest tranche of which had taken place in September 2018 and which had been the subject of updates to the Cabinet in June and December 2018.

Regarding the local Audit of Housing Benefit Risk Assessment Report, the report provided a summary of the Council's current position and key issues it faced with a view to assuring the committee about the ongoing drive to understand and improve performance against a complex background of nationally driven changes to the benefits system and budget and resource constraints.

Reference was made to the Action Plan prepared to respond to issues identified, and significant structural changes made within Revenues Services. It had been acknowledged by Audit Scotland that the Council remained proactive and committed, such as in its efforts to improve service delivery and performance and to recover overpayments. It had been acknowledged within the authority that performance had been mixed. Having commented

on a range of associated matters, including issues to be addressed which were itemised and related developments and initiatives, the report emphasised the commitment which existed to continuous improvement and high degrees of accuracy moving forward.

Prior to questions being posed which Members had indicated they intended to explore and which had been issued to the Head of Communities, Revenues and Change in advance to enable her to prepare, she made some preliminary comments. She highlighted that benefits work was a complex and frequently changing area, referring to national delays in implementing UC which had meant that HB caseloads had required to be maintained by the authority far longer than predicted. She added that annual reductions in the funding provided to the Council by the Department for Work and Pensions (DWP) to run the HB service coupled with wider pressures on local authority budgets had made it necessary to look closely at staffing in recent years. This was to consolidate the authority's benefits services and multiskill staff to build resilience whilst contributing to cost savings at the same time.

The Head of Communities, Revenues and Change clarified that East Renfrewshire had an annual HB caseload of about 3600, the 5th smallest in Scotland; that the small team concerned covered HB, Council Tax Reduction (CTR), the Scottish Welfare Fund (SWF) and Discretionary Housing Payments (DHPs); and that there were 4 main processors dealing with HB and CTR and some more senior staff to deal with more complex cases. She highlighted that in that small team sickness absence and performance issues could make a significant impact on overall performance, referring to 3 long-term sick absences which had been resolved. She also explained that it had been necessary to find alternative ways to deliver planned savings to enable 2 benefit processors to continue dealing with the ongoing HB caseload, the Audit Scotland report having noted the effective use of temporary staff when required. Reference was also made to initiatives progressed to better understand and improve benefits processing, this proactive approach having been acknowledged by Audit Scotland.

The Head of Communities, Revenues and Change acknowledged that there were areas where performance needed to improve, particularly around processing times for new claims, performance on changes of circumstances having tended to be better. She explained how a focus on eliminating errors and improving accuracy had impacted on the accuracy indicator. Having clarified that HB had to be administered in accordance with DWP rules, she referred to an Internal Audit report on HB, which was a draft, she had just seen which concluded that claims were being processed in accordance with policy and reflected that previous recommendations had been implemented.

The Head of Communities, Revenues and Change then commented on long-standing performance management issues that had been successfully addressed, resulting in accuracy increasing to 87.3% by the end of December 2018 compared to 82% the previous year. Having specified the weekly frequency of random audits of work of each staff member and that 100% of the work of new staff was also checked, regarding compliance she referred to the approach being adopted within the benefits team to provide assurance on key financial processes, commenting on the greater emphasis to be placed on using data to measure and drive improvement.

She highlighted that overpayments arising from local authority errors were at their lowest level since she took over responsibility for the service, and that over the same period HB overpayment recovery rates had risen from 51% to 82% which was the highest ever level, welcoming both as they affected DWP subsidy. She added that the benefits team worked closely with the Money Advice and Rights Team and Citizens Advice Bureau; and that immediate action was taken if there was any suggestion that local residents were being

unduly affected by processes, encouraging Elected Members to alert her or the Senior Revenues Manager to any issues of this type they became aware of. It was reported that there were no known evictions as a result of any delays in processing HB.

Prior to concluding her remarks during which she reiterated the position on various issues, she introduced the Senior Revenues Manager who was a Chartered Accountant and had joined the Council in summer 2018 following the retirement of other key staff. She confirmed they were working closely together to deliver the Action Plan referred to in the report and were both also committed to continuous improvement.

Responding to Councillor Grant who sought confirmation regarding the reduction in DWP funding, the Head of Communities, Revenues and Change, supported by the Head of Accountancy, explained that recurring core funds paid by the DWP to the Council to administer HB had been reducing annually in anticipation of HB claimant numbers falling and UC increasing. They explained that other new, smaller and often non-predictable funding streams sometimes become available from the DWP but that they were less easy to plan for, such as because they were not necessarily known of long in advance and could cease.

Having welcomed the improvements reported, Provost Fletcher expressed frustration at the lack of sufficient funds allocated centrally to the Council to cope with the service which was not peculiar to East Renfrewshire, commented on the unenviable tasks officers were having to cope with, and welcomed that the new UK Government Minister with responsibility for the benefits service had made some acknowledgement of related problems.

Whilst responding to issues raised by him, the Head of Communities, Revenues and Change reiterated that UC should have been implemented by 2017 on which basis staffing had been profiled originally rather than 2022 as predicted now, referred to 3 year budgeting which had required the size of the team to be considered, and commented on the wish to protect jobs and retrain staff who would continue to deal with other benefits workload in future. On a related issue, she also referred to various Scottish Government policies designed to mitigate the effects of welfare reform such as Discretionary Housing Payments and Scottish Welfare Fund grants, commenting that these also had to be administered by local authorities for which some funds had been received.

The Head of Communities, Revenues and Change also referred to the complexity of the benefits environment, and the establishment and role of the SSSA and related issues, commenting that some experienced staff could be lost to that new Agency. Having clarified that she was not seeking additional funds for the service at this point, she reported on the use of benchmarking to help inform processes locally, the use of data to drive improvements, and the aim of identifying end-to-end process efficiencies. She added that a focus was to be placed on new claims and related processes.

In response to Councillor Swift, she confirmed that DWP funding for the service had reduced over time from £337k in 2013/14 to £190k in 2017/18 and £175k for 2018/19. Having confirmed that benefits processing was partly automated, she reported that the Council was tendering for a new Council Tax and Benefits IT System which would deliver further automation and performance improvements. Councillor Swift expressed the view that, theoretically, there was quite a bit of financial resource per claimant.

Councillor Swift suggested that superficial similarities appeared to exist between the current situation in the benefits team and the problems encountered by the creditors' team in the recent past, such as regarding the use of temporary staff and absence, asking what lessons could be learned and applied from that. The Head of Communities, Revenues and Change clarified why she did not draw such parallels between the positions in both services. Having

explained that within the creditors' team, twice daily meetings were convened to discuss various issues such as the volume of invoices received and to allocate tasks accordingly, she confirmed that there was a wish to implement such an approach in the benefits team. Whilst referring to the way forward, she referred to lessons that could be learned from the improved production line approach and better use of data to understand and drive improvement.

Regarding performance which he described as mixed and having welcomed the improvements that had been made, Councillor Swift commented that he held serious concerns regarding the accuracy of payments. More specifically, he referred to the identification and recovery of overpayments of HB and the financial hardship this could cause to recipients in the short and longer term. He also raised concerns and sought assurances regarding the time taken to process changes of events and the accuracy of related performance reporting which had been commented on in audit reports.

The Head of Communities, Revenues and Change referred to the commitment that existed to improving accuracy, and sampling that was being implemented to support officers and manage related issues better. She confirmed that overpayments as a result of local authority error, at a level of 0.16% which was good, were at their lowest level since she had assumed responsibility for the service, and that recovery rates on overpayments were at their highest as reported earlier in the meeting. She also referred to the use to be made of data to sustain this and learn further.

Whilst confirming why there had been a dip in the performance indicator, the Head of Communities, Revenues and Change commented on why some related sampling for this she had done had been negatively biased due to a focus having been placed on sampling the work of those who were making more errors. She also referred to extra resources being deployed to sample and check the work of the team, and priority being given to ensuring performance information was accurate which would be checked by internal and external audit. The Chief Auditor confirmed that samples used by internal audit were random ones.

Also in response to Councillor Swift, the Head of Communities, Revenues and Change emphasised the wish to avoid overpayments and improve recovery of those made, referring to related work that would be progressed on this. She also commented on work to be progressed on new claims to deliver improvements, good use made of national datasets made available to the local authority to help check if HB was paid at the correct rate, and that she would consider the use of intervention work in future.

The committee, having heard Councillor Miller thank the Head of Communities, Revenues and Change for her input and clarification on a number of issues, agreed to note the report and the related comments made.

NATIONAL EXTERNAL AUDIT REPORT ON WITHDRAWAL FROM THE EUROPEAN UNION

794. The committee considered a report by the Clerk on the publication by Audit Scotland of a report entitled *Withdrawal from the European Union - Key Audit Issues for the Public Sector* which under the committee's specialisation arrangements had been sent to Councillors Miller and Grant for review. The Chief Executive had been asked to provide comments and a copy of her feedback was attached to the report.

The report explained that the United Kingdom (UK) would leave the European Union (EU) on 29 March 2019 and that in the event of a "no deal" Brexit there would not be a transition

period until the end of 2020. Audit Scotland had advised that the withdrawal coincided with the significant expansion of the Scottish Parliament's powers, rising demand for public services and continuing pressure on public sector budgets; and presented its view of key issues that withdrawal presented to public bodies as at October 2018 which in turn raised key questions that councils should be considering in the run-up to 29 March 2019. It also set out its plans to reflect withdrawal from the EU in Audit Scotland audit work. The key questions for public bodies were grouped around three themes of people, finance, and rules and regulations. The report provided information on the Council's response to each of these.

It was explained that withdrawal from the EU was likely to result in changes to the rights of non-UK EU nationals who live, work and study and access services across East Renfrewshire. The report demonstrated how the Council planned to communicate on these issues, provide support and respond to the implications that may affect local work forces when the UK leaves the EU. Regarding Finance, Audit Scotland had commented that little clarity existed about what would happen to funding streams dedicated to specific activities or geographic areas in the longer term, and referred to related financial risks to local authorities. Having specified the level and type of EU funding secured by the Council at present and commented on related issues, the report explained what was being done by the Council and the Corporate Management Team in terms of long-term financial planning and to factor in any potential implications of Brexit.

Regarding EU rules and regulations which affected all public bodies, it was explained that the most significant were trade and custom rules, with reference made to potential implications if the UK Government and the EU did not agree trade arrangements before the end of March. Reference was also made to EU regulations and legislation directly relevant to the Council on trading standards and environmental health and related issues.

It was clarified that the Council and its Partners were continuing to plan for the possibility of the UK Government and EU failing to reach an agreement on arrangements for the UK's exit from the EU, and that the East Renfrewshire Crisis Management and Resilience Team would lead on critical areas of work and consider all possible scenarios to mitigate risks to the Council and its services. It was reported that the Chief Executive and Chair of that Team had attended the West of Scotland Resilience Workshop in early February 2019 and would continue to monitor the situation in line with UK and Scottish Government guidance.

The committee agreed to note:-

- (a) the key issues raised in the Audit Scotland report;
- (b) the Council's responses to the key questions for public bodies raised in the report based around Audit Scotland's themes of people; finance; and rules and regulations;
- (c) Audit Scotland's audit plans over the short and long term; and
- (d) the Council's preparedness for Brexit.

