



CITY OF WESTMINSTER

MINUTES

Audit and Performance Committee

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Audit and Performance Committee** held at 6.30pm on Tuesday 5th February 2019, Room 18.4/18.5, 18th Floor, Westminster City Hall, 64 Victoria Street, London SW1E 6QP.

Members Present: Councillors Ian Rowley (Chairman), Robert Rigby, Jacqui Wilkinson and David Boothroyd.

Also Present: Richard Barker (Director of Community Services), Jeremy Beresford (LCF Manager, Corporate Finance), Paul Dossett (Grant Thornton), Kevin Goad (Director of Highways), Damian Highwood (Evaluation & Performance Manager), Martin Hinckley (Assistant Director - Revenues & Benefits), David Hodgkinson (Assistant City Treasurer), David Hughes (Shared Services Director of Audit, Risk, Fraud & Insurance), Paul Jacklin (Grant Thornton) Moira Mackie (Senior Internal Audit Manager), Tom McGregor (Director of Housing & Regeneration and Interim Managing Director of CityWest Homes), Joanne Meagher (Head of Operational People Services), Andrew Palmer (Senior Committee Officer), Mo Rahman (Planning & Performance Manager), Tasnim Shawkat (Director of Law), Rikin Tailor (Head of Corporate Finance), Ezra Wallace (Head of City Policy & Strategy).

1 MEMBERSHIP

- 1.1 There were no changes to Membership.
- 1.2 The Chairman welcomed Councillor Jacqui Wilkinson to the Committee.

2 DECLARATIONS OF INTEREST

- 2.1 Councillor Robert Rigby declared that he was Deputy Cabinet Member for Finance, Property & Regeneration.
- 2.2 Councillor Jacqui Wilkinson declared that she was Deputy Cabinet Member for Economic Development, Education & Skills.

3 MINUTES

- 3.1 **RESOLVED:** That the Minutes of the meeting held on 14 November 2018 be agreed by the Committee as a correct record of proceedings.

4 GRANT THORNTON: EXTERNAL AUDIT CERTIFICATION OF CLAIMS AND RETURNS ANNUAL AUDIT 2017/18:

- 4.1 Martin Hinckley (Assistant Director - Revenues & Benefits) presented the Annual Grants Certification Audit for 2017/18, which reviewed the grants claimed by the City Council. The report had been prepared by the City Council's external auditors, Grant Thornton.
- 4.2 The Committee noted that the Housing Benefit subsidy claim of £211 million had been the one return/claim that had been audited. A small number of errors had been identified in relation to manual adjustments; extended payments and uncashed cheques; and in Rent and Earned Income cells. Grant Thornton had recommended that the Council increase its focus or level of testing in these areas, as part of its internal quality insurance process. The Committee looked forward to next year's audit containing fewer errors; and commented on the risk of small errors combining into more significant losses. A report on the Teachers' Pension claim would be given later in the year, as part of the main Accounts Audit.
- 4.3 The Committee raised the potential that small errors could potentially also relate to larger errors. The Assistant Director confirmed that all errors identified resulted in larger sample checks and the District Audit producing extrapolations if appropriate.
- 4.4. The Committee also raised the issue of Housing Benefit fraud. The Assistant Director confirmed that fraud investigations are now undertaken by SFIS (DWP) and that it did not affect the annual Housing Benefits subsidy claim audit.

5. GRANT THORNTON PROGRESS REPORT ON ANNUAL AUDIT PLAN 2018/19

- 5.1 Paul Jacklin (Pension Fund Manager, Grant Thornton) and Paul Dossett (Engagement Lead, Grant Thornton) presented a report prepared by the City Council's external auditors, which set out progress to 14 January in delivering the audit of the Council's Financial Statements and Pension Fund for 2018-19. Interim work on the annual report was now being completed, and the auditors had been satisfied with the transactions that had taken place with no errors to report.
- 5.2 Although a sector update included in the report had not indicated any risks relating to materiality or value for money, significant risk had been identified in the Council's provision for Business Rate appeals, which were the highest in the country; and in the valuation of Level 3 investments relating to property unit trusts. The Committee suggested that the red, amber, green colour coding could be used for indicating levels of risk; and noted that the outcome of the action plan to mitigate risk would be reported at a later meeting.

- 5.3 Emerging national issues had included the challenging financial climate resulting from year on year funding reductions; and the need for appropriate arrangements to be in place for responding to the potential local and national implications of Brexit.
- 5.4 The Committee discussed the process for the valuation of building and property assets in the absence of benchmark transactions, and Rikin Tailor (Head of Corporate Finance) confirmed that investment properties were valued annually by external valuers under a prescribed methodology.
- 5.5 Committee Members also highlighted the possible impact on the City Council's Pension Fund if 2% of the capitalisation of large UK companies were to be lost.

6 FINANCE PERIOD 8 MONITORING REPORT

- 6.1 David Hodgkinson (Assistant City Treasurer) presented the period 8 finance report, which provided details of the forecast outturn in respect of revenue and capita, together with a summary by Cabinet portfolio of forecast variances, risks and opportunities. The report also included details in relation to the revenue and capital expenditure for the Housing Revenue Account (HRA).
- 6.2 Revenue monitoring for period 8 had projected a net underspend of £1.697m by end of year, with net risks of £1.009m. All variances would be subject to active management through the financial year, and it was anticipated that the net risk position would be mitigated by year-end. Capital monitoring had projected an underspend in expenditure of £30.477m by the end of the year; and income was forecast to under-recover by £24.464m, resulting in a net forecast underspend of £6.012m.
- 6.3 The HRA revenue forecast at period 8 was for an overspend of £0.466m, compared to a budgeted surplus of £6.994m. The forecast gross capital outturn for the HRA was £119.644m, resulting in a total underspend of £30.702m compared to the budget of £150.345m. Cabinet portfolios were also projecting a net underspend of £1.697m by year-end, with net risks of £1.009m. Specific pressures were reported in areas such as parking income; family services; transport; and costs associated with unaccompanied asylum seeking children. Members suggested that the decline in parking revenue was an on-going trend, and that an acceleration in the decline could be expected following the introduction of the Ultra-Low Emission Zone, which was a traffic pollution charge scheme that aimed to reduce the exhaust gas emissions of diesel-powered commercial vehicles in London.
- 6.4 The Council's General Fund capital projects were currently reporting a forecast gross expenditure of £274.983m with gross income of £109.473m; against a revised gross expenditure budget of £305.460m and gross income budget of £133.937m. This equated to a net underspend of £6.012m, comprising of £30.477m on expenditure and an under-recovery of income of £24.464m. The Committee noted that the revenue surplus had been generated by higher than expected interest on investments, and asked whether this had been gained through market variations, or had been structural in allowing for a high interest

rate. The Assistant City Treasurer confirmed that variances in the £780m budget always occurred at this time of year.

- 6.5 The Assistant City Treasurer acknowledged that some issues remained in delivering projects in the Capital Budget, as schemes that were dependent on third parties could be out of the City Council's control and subject to slippage. The Committee discussed the capital programme for Oxford Street, and highlighted concern that the project could be at risk of over-running on delivery through over-optimism in its timing.
- 6.6 Committee Members also discussed the revenue account and commented on the risk to property relating to lease and rent reviews, and to the assumption that backdated rents would be obtained.

Action: The Committee noted the distinction between funding from the City Council and third parties, and requested that future reports include a breakdown on the sources of funding for major projects such as Hanover Square and Jermyn Street. **(Action for David Hodgkinson - Assistant City Treasurer)**

7 QUARTER 2 PERFORMANCE REPORT

- 7.1 Damian Highwood (Evaluation & Performance Manager) and Mo Rahman (Planning & Performance Manager) presented the Quarter 2 Performance Report, which set out the latest outturns available at the end of the second quarter of 2018/19 (April - September 2018). Updates that were available for Quarter 3 were given at the meeting. The report provided commentary in respect of outstanding and poor performance against the City for All priorities, and where appropriate included details of remedial actions that were being taken.
- 7.2 The main accomplishments had included Cabinet approval of £2.5m to support the development of key work streams relating to the Oxford Street District Project; and examination results in Westminster's schools continuing to be well above national averages. The main emerging and current risks included an increase in singles approaching Housing Options as a result of the Homelessness Reduction Act; the risk that service levels could deteriorate during the process of bringing CityWest Homes services back under Council control; and the significant concerns over the new police Basic Command Unit structures.
- 7.3 The Committee sought clarification of how the City Council's targets for building new homes had been set, as the funding for the development of affordable housing could vary and the number and mix of properties being built could change. Ezra Wallace (Head of City Policy & Strategy) confirmed that the proposal for 2000 affordable homes by 2023 had been set after identifying sites that could deliver that target. The proposal for 1,495 homes included in the draft City Plan had been established through a methodology given by the government based on population demand for housing, and evidence of having land supply for 5 years. The draft Plan included the aspiration of 35% of the homes being affordable housing; and that the possibility of increasing building

heights and opportunity areas provided the potential to increase both business and residential capacity. Committee Members discussed the discharge of duty into the private rental sector, and suggested that current arrangements for landlords to be paid £4000 to take a Westminster nominated tenancy for a year but only £1500 for a renewed further year may not achieve best value for money.

- 7.4 The Committee noted that the new Basic Command Unit (BCU) for Westminster was to go live in February 2019, and discussed the effect that the BCU could have on the new organisational structure being put in place for the City Council's street management and enforcement unit. The Committee agreed that Westminster's unique crime profile in areas such as the West End required significant policing resources. The Borough Commander had made a commitment to work with partners to develop the new BCU; and a Police Performance list had been made accessible to monitor police performance around response times, detection rates and crime, which would support the scrutiny process
- 7.5 Committee Members suggested that the social mobility referred to in the featured analysis 'Leaving Westminster' could not be measured by assuming people stayed in the same borough, as in reality only a minority of adults living in Westminster had been residents since childhood.
- 7.6 Other issues discussed included concerns over schools developing budget deficits following the introduction of the National Funding Formula; the strategic risk of major contracts being unable to provide services to meet health and safety obligations; ongoing funding for the My Westminster schemes; and Westminster's participation in data-sharing to inform the Local Government funding review. Committee Members also commented on the review of the Amey contracts; the possible risks associated with the reductions in the Public Health Grant; and on the Integrated Healthy Lifestyle Service.

ACTIONS:

1. That an analysis be provided on drainage conditions and defects in Westminster; and on targets for outcomes and jobs completed. **(Action for Kevin Goad - Director of City Highways)**
2. That a breakdown be provided by age group of the total participants in sport, leisure and wellbeing activities provided by the City Council. acknowledged the request for action. **(Action for Richard Barker - Director of Community Services)**
3. That details of budget deficits being developed by schools be included in future performance reports from Q3, together with details of any mitigation. **(Action for John O'Sullivan - Head of Children's Business Intelligence & Strategy)**
4. That more detail be provided on why the levels for sundry debtors since Q3 are still significantly higher than the ideal target of 5%; together with

more detail on how this is managed and migrated to ideal levels. **(Action for Martin Hinkley - Assistant Director: Revenues & Benefits)**

5. That details be given of the total number of Homes of Multiple Occupation in Westminster; together with a breakdown by Ward and confirmation whether new properties were being assessed or discovered. **(Action for Twila Grower - CMC Business & Performance Manager)**
6. That a briefing be given on the City Council's contractual agreements when Westminster's statutory housing duty is discharged into the private rented sector, in view of Westminster paying a big initial fee to landlords where, which is then reduced in subsequent years. **(Action for Ian Clarke – Performance Manager)**
7. That an update be provided on the review of the Amey contracts. **(Action for Ian Clarke – Performance Manager)**
8. That an update be provided on Public Health grant reductions, together with the nature of the risks and possible consequences. **(Action for Gary Hamilton – Head of Programme Management, Adult Social Care)**
9. That more detail be provided on the Thrive Tribe service provider and its role in supporting the Integrated Healthy Lifestyle Service. **(Action for Gary Hamilton – Head of Programme Management, Adult Social Care)**
10. That the following items be added to the Committee Work Programme for future monitoring:
 - To monitor and report back on the performance of CityWest Homes 6 months after the transition to an in-house service, and in the year-end performance report and again in the Q2 2020 report. **(Action for Mo Rahman and Damian Highwood – Evaluation & Performance)**
 - To monitor and report back on the performance of the Police Basic Command Unit for Westminster 6 months after implementation, and in the year-end performance report and again in the Q2 2020 report. **(Action for Twila Grower - CMC Business & Performance Manager)**

8 MAINTAINING HIGH ETHICAL STANDARDS AT THE CITY COUNCIL

- 8.1 Tasnim Shawkat (Director of Law and Monitoring Officer) presented the annual report on the arrangements in place and actions that had been taken to maintain high ethical standards throughout the City Council. The Committee also heard from Joanne Meagher (Head of Operational People Services) and David Hughes (Shared Services Director of Audit, Risk, Fraud & Insurance).
- 8.2 The arrangements for dealing with complaints alleging a breach of the Members' Code of Conduct had been reviewed by the Standards Committee in

March 2018. Following the review, the deadline for complaints involving alleged bullying, harassment or intimidation had been extended from three to six months.

- 8.3 Over the past year, the Monitoring Officer had considered three complaints alleging a breach of the Members Code of Conduct. One had been a service complaint, and so not pursued for investigation; while the other two did not proceed as one of the Members had ceased to be a Councillor and the other had resigned.
- 8.4 The Committee discussed declarations of interest, and agreed that although the receipt of gifts and hospitality by elected Members and staff, if properly registered and declared, may not violate any particular rules, it could raise reputational questions for Westminster and bring Council processes into question. Stricter monitoring would be helpful, but the Director of Law suggested that the issue was ultimately about personal judgement and of leading by example.
- 8.5 Committee Members also discussed staff disciplinary cases, and asked why members of staff could resign without further action being taken. The Head of Operational People Services confirmed that each case was determined on its individual merits, and that resignation could be considered the best outcome.
- 8.6 The Committee highlighted the importance of the anonymity and wellbeing of staff who were involved in whistleblowing, and noted that managers had received awareness training on bullying through involvement in the Westminster Way programme.
- 8.7 **RESOLVED:** That the annual report and actions taken to maintain high standards of ethical governance throughout the City Council be noted

9 HOUSING DIRECTORATE PERFORMANCE UPDATE

- 9.1 The Committee received an update from Tom McGregor (Director of Housing & Regeneration and Interim Managing Director of CityWest Homes) on the performance of the Housing Directorate for Quarter 2 of the City Council's financial year. The report included details of operational performance, contract management, complaints and risk. Initial data for Quarter 3 had been included in an appendix attached to the report.
- 9.2 The operating model for CityWest Homes (CWH) had been modernised in 2017 and the repairs and major works contracts relet. The changes had initially led to a collapse in service, with reputational damage resulting from unacceptable levels in customer contact handling and repairs performance. In response, a new team had been created which integrated with existing staff, and a recovery plan had been implemented. The Committee noted that significant improvements were now being made in all operational areas, and that the number of customer complaints had reduced. In September 2018, a programme of planned maintenance had been put in place which had led to a significant reduction in the number of urgent repairs, and the contractor was being encouraged to use multi-skilled workers when dealing with general

repairs. CWH acknowledged that improvements were still needed in areas which included major works relating to windows; the resident engagement programme; void properties; and anti-social behaviour. The Committee commended the work of the contact centres, and noted that although complaints were still being received concerning repairs, these were mostly being made in connection with long-term cases.

- 9.3 Committee Members commented on the fire hazard caused by the use of balconies for storage. The Director of CityWest Homes confirmed that CWH was seeking to replace the current managed approach by implementing a 'Clean and Clear' policy of zero tolerance to anything being stored on balconies, which would be implemented in six months' time subject to consultation.
- 9.4 Committee Members also commented on CWH properties being located in streets as well as estates, and suggested that there could be a disconnect with residents in non-estate locations.
- 9.5 The Committee highlighted the need to consider how CWH could integrate with other services provided by the City Council for mutual benefit, and to save money. The Director of CityWest Homes commented that a Transition Board had been established that was chaired by the City Council's Chief Executive, and which met monthly. A programme manager who had been assigned to the Board was working with the various work streams to identify how services could be integrated, prior to recommendations being submitted to the Cabinet Member.
- 9.6 The Committee wished to formally record their thanks to staff within the Housing Directorate for their work in delivering the ongoing improvements.

Actions:

1. That future reports include details of repair performance in numbers, as well as percentages rather than percentages. **(Action for Tom McGregor - Interim Managing Director CWH)**
2. That details be provided of the number of properties in estates, compared to the number of properties in non-estate locations. **(Action for Tom McGregor - Interim Managing Director CWH)**
3. That the Committee receive an update on progress in implementing the 'Clean and Clear' policy for balconies. **(Action for Tom McGregor - Interim Managing Director CWH)**
4. That a further update be given on the performance of the Housing Directorate. **(Action for Tom McGregor - Interim Managing Director CWH)**

10. HAMPSHIRE COUNTY COUNCIL PARTNERSHIP AND BT MANAGED SERVICES EXIT

- 10.1 The Committee received an update from Dave Hodgkinson (Assistant City

Treasurer) and Jeremy Beresford (LCF Manager, Corporate Finance), on the exit from the BT Managed Services contract and transition to the new service provided by Hampshire IBC Solution. The programme had been successfully delivered on budget and timetable, with a minimal number of issues being reported.

- 10.2 Feedback from across the organisation had been very positive, with 80% of the organisation having engaged in the self-service functionality, and over 90% of requests having been closed by the IBC team within a week. The Committee was pleased to note that following the launch of the new service in December, the City Council's payroll run had been 99.9% accurate.
- 10.3 The programme was now in a period of stabilisation until March 2019, when a report would be produced setting out key performance indicators prior a new governance structure being put in place in April.
- 10.4 **Action:** That a letter be sent to the Leader of the City Council and Chief Executive, commending the work that had been done by the City Treasurer's department and the LCF team. **(Action for: Andrew Palmer, Senior Committee & Governance Officer)**

11 PROCUREMENT UPDATE

- 11.1 Jonathan Noble (Head of Procurement & Supply Chain) and Kevin Goad (Director, City Highways) submitted an update on contract performance and ongoing review of the City Council's Procurement Services. As the standing report was substantially incomplete, with only 47% of spend being matched to a contract, the report had been expanded to include some commentary and suggestions on how the data could provide an insight into the management of expenditure in providing services for residents.
- 11.2 Responsibility for Procurement Services had transferred to the Director of City Highways, who had initiated a 'root and branch' review of the service area and model for procurement across the City Council. The review and subsequent change programme also sought to determine how procurement could support Westminster's aspirations.
- 11.3 Since the commencement of the review, meetings had taken place with Westminster's Executive Directors to agree shared principles, and identify where local arrangements may be needed. A number of initial recommendations had been made and actions taken to improve performance and engagement, which included the introduction of a Procurement Services Leadership Team; and the development of a single overview of procurement activity through the Commercial Activities Register. A process had now been introduced in which every contract coming into the team was gated; and a work programme had been established with new staff brought in to support 103 projects.
- 11.4 The Committee noted that the performance of seven contracts had been rated below expectation, and commented on areas of consideration which had been

highlighted in the report. These included there being no single forward plan of procurement activity to allow resource planning, or provide advance notice of potential opportunities to join up contracts.

- 11.5 The review would now move into the design stage, in which the new structure would be secured prior to further recommendations being made to enable transition into the new service.

Action: That a further report be submitted in six months, which provides a further review of progress in the new structure and work programme, and which considers key performance indicators for the new operating model. **(Action by Kevin Goad - Director, City Highways)**

12 INTERNAL AUDIT 2018-2019 PROGRESS REPORT (NOVEMBER TO DECEMBER 2018)

- 12.1 Moira Mackie (Senior Internal Audit Manager) and David Hughes (Shared Services Director of Audit, Risk, Fraud & Insurance) submitted a progress report on internal audit for November to December 2018. The Committee noted that during the reporting period and areas that had been audited, the City Council's Internal Audit Service had found the internal control systems for Westminster to be generally effective. Since the last report, four positive assurance reviews had been issued, and follow-up reviews for three audits had confirmed that the implementation of recommendations had been effective and fully implemented.

13 INTERNAL AUDIT PLAN 2019/20

- 13.1 Moira Mackie (Senior Internal Audit Manager) and David Hughes (Shared Services Director of Audit, Risk, Fraud & Insurance) presented the draft Internal Audit Plan for 2019-20, which reflected the changes in the City Council's structure and set out the key themes and areas of activity that had been planned for the forthcoming year.
- 13.2 The Committee commented on the current review of the Procurement Service, and on the risk of fraud arising from only half of Westminster's current contracts being on the Procurement Register. The Committee also commented on the difficulty of knowing when long-term Section 106 planning agreements would be triggered, and noted that this was not currently identified as area of concern.
- 13.3 The Committee noted that Corporate Anti-Fraud Service activity in the current year had been similar to that anticipated in the 2018/19 Audit Plan, and suggested that the annual report include comparative details of timelines and days expended in fraud activity, together with the outcome.

Actions:

1. That the annual report include comparative details of timelines and days expended in Corporate Anti-Fraud Service activity, together with the outcome, to establish whether the figures were similar to those

anticipated. **(Action for Andrew Hyatt – Shared Services Head of Fraud)**

2. That a briefing be provided of whether there had been any evidence of weakness to fraud, or of fraud occurring, in relation to only 47% of Westminster's current contracts being on the City Council's Procurement Register. **(Action for Moira Mackie - Senior Internal Audit Manager)**
3. That a proactive review of weakness to fraud also be applied to the transition of CityWest Homes, before the processes around the management of housing become fixed. **(Action for Moira Mackie - Senior Internal Audit Manager)**

14 WORK PROGRAMME AND ACTION TRACKER

14.1 The Committee noted the items that were on its Work Programme for the next meeting on 2 May 2019. It was agreed that future reports to the Committee would include:

- (i) CityWest Homes: monitoring and report back on performance by 6 months after the transition to an in-house service; and again after 9 months; and
- (ii) Police Basic Command Unit for Westminster: monitoring and report back on the performance 6 months after implementation, and again after 9 months.

14.2 RESOLVED:

1. That the Work Programme including the items for the next meeting on 2 May 2019 be noted.
2. That the responses to actions from the last meeting be noted.

The Meeting ended at 8.50 pm

CHAIRMAN: _____

DATE _____