

PERFORMANCE AND FINANCE SCRUTINY SUB-COMMITTEE MINUTES

23 APRIL 2013

Chairman: * Councillor Sue Anderson

Councillors: * Tony Ferrari * Zarina Khalid (2)
* Ann Gate * Barry Macleod-Cullinane

In attendance: Stephen Wright Minute 127
(Councillors)

* Denotes Member present
(2) Denotes category of Reserve Members

120. Attendance by Reserve Members

RESOLVED: To note the attendance at this meeting of the following duly appointed Reserve Member:-

Ordinary Member

Reserve Member

Councillor Jerry Miles

Councillor Zarina Khalid

121. Declarations of Interest

RESOLVED: To note that the following interests were declared:

Agenda Item 9 – Contracts and Procurement Savings

Councillor Sue Anderson declared a non-pecuniary interest in that her son was in receipt of adult social care. She would remain in the room whilst the matter was considered and voted upon.

Councillor Barry Macleod-Cullinan declared a non-pecuniary interest in that he had been Portfolio Holder for Adults and Housing at the time the consultation with adult social care service users was carried out. He would remain in the room whilst the matter was considered and voted upon.

Councillor Stephen Wright declared a non-pecuniary interest in that he had been part of the team that had negotiated the Highways contract. He would remain in the room whilst the matter was considered and voted upon.

122. Minutes

RESOLVED: That the minutes of the meeting held on 29 January 2013 be taken as read and signed as a correct record.

A Member stated that it had been 174 days since his initial request for information relating to the SAP system. He added that this delay did not reflect the openness and transparency required by the scrutiny function or the respect due to Members. He requested that an explanation regarding the delay in providing this information be provided to Members by relevant officers.

123. Public Questions & Petitions

RESOLVED: To note that no public questions were put, or petitions received.

124. References from Council and Other Committees/Panels

RESOLVED: To note that no references were received.

RESOLVED ITEMS

125. Chair's Report

The Sub-Committee received a report which set out issues considered by the Chair since the last meeting of the Performance and Finance Scrutiny Sub-Committee.

RESOLVED: That the report be noted.

126. Revenue and Capital Monitoring - Quarter 3 - as at 31 December 2012

The Sub-Committee received a report of the Corporate Director of Resources, which had been previously considered at Cabinet on 14 February 2013. The report set out the Council's revenue and capital monitoring position for Quarter 3 as at 31 December 2012.

An officer stated that much of the data in the Quarter 3 report had been superseded by the Quarter 4 report and highlighted the following areas of the report:

- the position within the Resources Directorate had significantly improved since the previous quarter, resulting in a net favourable variance. This improvement had been mainly due to a reduction in External Audit fees, underspends on pension liabilities, release of excess commitments on expenditure service credits on the Capita IT contract and vacancy management across the Directorate;
- the Environment and Enterprise Directorate was forecasting a significant favourable variance. There was an increase in fees from improved parking enforcement;
- there was an adverse variance of just under £700k in the Children and Families Directorate. This was due mainly to unpaid PCT debts, some of which had subsequently been recovered;
- there was an improvement in investment income in Capital financing, however, some slippage was anticipated in the following year which meant reduced revenue;
- there had been a significant improvement in the Housing Revenue Account (HRA) since quarter 2;
- there were areas of significant underspends in the Capital Programme due mainly to delays in progressing projects such as the Schools Expansion Programme.

A Member stated that it would be helpful to both Councillors and members of the public if, in the future, the Revenue and Capital Monitoring reports provided a more detailed explanation of how and why budgets were revised during the year and who was responsible for these. The officer stated that the original budget figures had been set by Council and the revised figures were those subsequently set by Cabinet, taking into account any virements. The officer undertook to include this level of detail in future reports.

The Member asked how the delays in the Vaughan School expansion programme would impact on revenue and how any risks arising from these were being mitigated and managed. The officer stated that a number of temporary 'bulge' classes were being planned to deal with this and added that slippage in the Capital Programme generally impacted positively on revenue. The officer undertook to provide this information to Members of the Sub-Committee.

Referring to the Council's sundry debts, which had been written off during the third quarter, a Member asked why after school clubs and nurseries had monies owing from them. The officer advised that this was not an unusual occurrence as Harrow did not require payment up front for these services and sometimes parents defaulted on these.

The Chair stated that the report referred to the closure of Greenhill Crescent car park. However, as there was no car park in Greenhill Crescent, she sought clarification on whether this referred to the Car Park in Greenhill Way

or to the one on Greenhill Road. The officer undertook to circulate this information to Members of the Sub-Committee.

A Member asked how the work of the now disbanded Brent and Harrow Education Business Service (BHEBS), which used to be responsible for finding work experience for high school pupils, would be covered. An officer advised that the government was increasingly taking a more integrated approach to apprenticeships and youth employment schemes and the funds were being diverted to these new initiatives. The Chair requested that information regarding the costs of the BHEBS be circulated to Members.

A Member enquired about the timescales for the Harrow Card feasibility studies, which had received approval from Cabinet as part of the Transformation and Priority Initiatives Fund (TPIF). The officer undertook to circulate this information to Members of the Sub-Committee.

RESOLVED: That the report be noted.

127. Contracts and Procurement Savings

The Sub-committee received a report which set out the progress in advancing the Council's Procurement Transformation Programme since its launch in October 2010.

The Chair noted that appendix 6 of this report, which related to Adult Social Care had been marked as 'to follow', and asked why this appendix had not yet been circulated to the Sub-Committee. An officer advised that this appendix related to a block contract that had now ended as a result of savings agreed in the MTFS.

The Chair stated that this situation was unacceptable and did not demonstrate the level of due diligence expected of Council officers. She added that, in the future, Members of the Sub-Committee would expect all reports to be provided in time in order to allow Members sufficient time to read and consider them prior to meetings and any late reports should be prefaced with reasons for lateness in the future.

Terms of reference for the Strategic Procurement Board & Directorate Contracts Boards

A Member stated that he had serious concerns regarding both the current and proposed structure charts and the Terms of Reference (TOR) for the Strategic Procurement Board (SPB) and Directorate Contract Boards (DCB) as set out in the report. Both documents failed to indicate Member oversight and involvement in the governance of what was a very important area of the Council's responsibility, with potential for huge savings and costs.

The Corporate Director of Resources advised that the proposed structure chart was a reflection of recent changes in officers' roles and new appointments. He also advised that the Terms of Reference documents were for an officer level meeting and were not a full description of the role of members in overseeing third party spend. The new structures included a new

Divisional Director, Commercial Contracts and Procurement and three Commercial Business Partner roles. The recruitment and job matching process for these was underway. Officers in the Resources Directorate had been consulted regarding these proposals during the summer of 2012.

He added that, the Council spent over £160m on contracts with third parties, and better management of this activity would be achieved through the appointment of senior, high calibre officers with oversight of the entire procurement function and responsibility for further developing the service.

The Member asked how the Personalisation of Care Budgets (PBs) would impact on procurement and income streams. He added that he had asked this question at the previous meeting and was still awaiting a response from officers.

In response, officers made the following points:

- the Council had engaged in extensive consultation with service users regarding their specific needs;
- the Council would continue to have a major role in the following areas: purchase of care and services; building up the market; ensuring standards and quality of service were maintained; and that services and products were sustainable and provided value for money.

A Member who was not a member of the Sub-Committee asked that if each Directorate had a dedicated procurement manager, would that manager have authority to act on their own or would that person be answerable to the Divisional Director. He also asked whether different rules applied to major and minor contracts. He added that the structure charts and TOR did not explicitly state who had overarching responsibility for the procurement function and failed to demonstrate Members' oversight of this service. He further added that contract negotiation was a specialised area and asked whether this skill-set currently existed within Directorates.

In response, officers advised that:

- the Corporate Procurement Rules (CPRs) allowed procurement managers a degree of autonomy, however, tightening of processes and the recent implementation of the SAP SRM system would allow managers better oversight of all contracts;
- the contract procedure rules had not changed, but the amount of flexibility allowed by these had been reduced, which would ensure greater control and accountability;
- the Divisional Director would be notified of both major and minor contracts, however this would happen once the contract had been agreed. Smaller contracts amounting to less than £5k required the provision of two quotes before the SAP system would allow the officer to proceed. In addition, the waiver process required separate approval;

- all contracts were visible on the corporate contracts register. Directorate-specific contracts registers listed all current contracts over £50k. Furthermore, SAP would flag up all additional spends off-contract;
- it was envisaged that the 3 proposed Commercial Business Partners roles would have the requisite professional contract negotiation skills;
- SPB and DCB were working to engender behaviour change among officers by providing correct guidance and advice to them;
- membership of the SPB would remain the same and would be chaired by the Corporate Direction of Resources.

Members made the following comments and requests:

- SPB & DCB structure charts and TORs had omitted to define Member involvement in setting priorities for this service;
- a new document was requested to show oversight of this area by relevant Portfolio Holders, Cabinet, Council or Scrutiny Committees;
- a track changes version of the structure charts and and a new document incorporating the suggested amendments above be circulated to Sub-Committee Members.

The Corporate Director advised that the structure charts and TOR related to officer groups and were not intended as an overarching description of governance arrangements relating to third party spends. He undertook to update the structure chart and the TORs and develop a new document to reflect Member involvement and oversight and circulate these to Members.

The Chair added that the Government Audit and Risk Management Committee (GARM) would be interested in reviewing these amended documents and that these should be submitted to GARM for comment.

A Member added that, in the past, senior officers had withheld crucial information from Members and deliberately misled them regarding the spend on the Whitmore High School project, where the spend had been ten times over budget. This issue had only come light following an audit and asked what procedures were in place to prevent a repetition of the above incident. The Corporate Director stated that the investigation relating to the above overspend had made a number of recommendations which had been implemented.

Update on Leisure Contract 2013

An officer provided the following update on the Leisure Contract:

- a temporary two-year contract with Greenwich Leisure Ltd (GLL) had been put in place while officers explored other options for the provision of leisure;
- the contract had been set up as an open book trading account and was due to expire at the end of April 2013, but had been extended until the end of August 2013 due to a number of unforeseen delays;
- there had been a number of improvements at Harrow Leisure Centre (HLC), such as, an increase in visitors and membership, decline in the number of complaints received and increased user satisfaction;
- robust contract management, client monitoring and performance monitoring procedures and an annual review were in place;
- an annual management fee of £150k was payable to GLL by the Council;
- there was a possibility that income would be lower than the target set and this would be clarified once the outturn figures for 2012/13 had been finalised;
- not all of the recoverable VAT had been achieved and there had been some additional in-year issues relating to repeat repairs and maintenance;
- there had been added competition from a recently opened gym in North Harrow, which was charging very low membership fees.

A Member asked what financial risks faced the Council due to the under-performance and the what was the deadline date for signing the new contract. The officer advised that this was estimated at £174k and that the finance team were looking into this. The new contract was due to be signed at the beginning of July 2013, subject to approval by Cabinet on 9 May 2013.

A Member who was not a Member of the Sub-Committee asked why the revenue for 2012/13 was expected to be lower than in years 1 and 2. The officer advised that this was partly due to the disaggregation of funds, whereby a proportion of membership income would be passed on to the new contractor, and added that she would only have the definitive answer to this question once the figures had been finalised.

A Member asked when the un-anticipated shortfall had come to light, and whether it and the extension of the contract until August would result in a pro-rata shortfall of approximately £80k, and whether this had been factored into the budget for 2013/14. The officer advised that this slight shortfall had become apparent in quarter 3 and had been both factored into the budget and been flagged up to the Director of Finance and Assurance. She added that the January-February 2013 figures had been lower than expected, partly due to reduced use of the leisure centre during and in the lead up to Christmas. The Member asked whether reduced use of HLC during the Christmas period

had correctly been factored into the targets set. The officer stated that financial modeling was carried out on a quarterly basis, however, GLL's profile had been more generous and that officers in Finance would be analysing the figures in further detail.

Highways Construction Contract

An officer provided the following update on the Highways Construction Contract:

- the highways contract, which amounted to between £12-15m per annum, had been awarded to May Gurney following a 2-stage restricted procurement procedure process, and Cabinet approval;
- the contract had been tendered as three separate LOTS, all three of which were won by May Gurney and the LOTS were subsequently consolidated with the added bonus of a 3% cost reduction;
- risk had been managed through the use of a rigorous risk matrix overseen by enhanced contract governance procedures;
- the contract would be subject to monthly monitoring against a raft performance indicators to evaluate it and financial penalties would be imposed if these were not met;
- a system of asset management would enable funds to be channelled where they were required;
- any environmental impact would be kept to a minimum;
- the rate of response in terms of residents' feedback regarding satisfaction levels had been low.

A Member stated that the governance structure chart relating to the highways contract showed clear lines of corporate responsibility, Member oversight and involvement in the process. He praised the officer for an excellent report. He added that the new finish being used on some roads resembled the material used on some cycle paths. The officer advised that a new, more economical road surface material was being trialled on certain roads in Harrow. However, use of this material would be discontinued as the feedback from road users had not been positive.

A Member asked whether there was a minimum value attached to each of the contracts. The officer responded that the minimum value was zero and that there was no guaranteed spend specified in the contract. He added that a number of annual Key Performance Indicators had been identified and that these had only recently been finalised for year 1 of the contract.

The Brent, Ealing & Harrow Strategic Cultural Partnership's Procurement Process for Leisure & Library Services

An officer provided the following update on the Tri-borough Leisure and Library Services initiative between Harrow, Brent and Ealing Councils:

- the three boroughs had established a Strategic Cultural Partnership to jointly procure external management for leisure and library services in order to achieve efficiencies of service, delivery, clienting and management; and to assess whether additional efficiencies in other areas of shared services could be identified;
- tri-borough working groups had been set up and joint Member briefings and internal briefings with relevant Portfolio Holders had been carried out at each authority. Each authority had prepared a detailed business case, and market testing had been carried out prior to the tendering exercise. Tender specifications had been designed to be outcome-based;
- the procurement process was subject to a rigorous procurement process, where quality and pricing were established. The draft contract had been formulated to encourage membership and use of leisure and library services and reduce its decline;
- in cases of an increase in utilities costs, the contractor would be required to demonstrate that these had been properly managed;
- officers had sought actuarial advice on whether the pension fund deficit should accrue to the relevant council or to the contractor. It was agreed that any residual risk would be attributed to the council as any savings on the contract would outweigh any potential risks.

A Member stated that, in his view, the report did not detail the level of savings or service improvements anticipated. He added that it was the remit of the Sub-Committee to scrutinise the Council in terms of performance and finance and all reports being submitted to the Sub-Committee, particularly those dealing with major contracts should contain this level of detail. He asked whether officer time had been factored into the calculations and how soon the contract was expected to deliver savings.

The officer advised that these figures were yet to be submitted to Cabinet and therefore it would not be appropriate to reveal these to the Sub-Committee. She added that it was anticipated that a saving of £600k overall would be made, £200k of which would be in 2013/14 and £400k in 2014/15. With regard to officer time, some of the work undertaken for this project was deemed to form part of officers' day-to-day responsibilities. She added that each borough had contributed £25k towards a joint procurement fund which covered aspects such as the cost of advice from actuaries and other experts. The officer undertook to provide Members with more detailed information about the cost of officer time on this project.

A Member who was not a Member of the Sub-Committee queried the £140-£160m figure which the report specified as the total value of contracts. The officer advised that this would be over a period of 5 years for libraries and 10 years for leisure. The Member queried the statement in section 4 of the report which indicated that fewer than anticipated library closures would take place under the partnership. The officer advised that no library closures were anticipated at Harrow, however, Ealing had been considering this option. The Member responded that this was misleading and should have been made clear in the report. An officer advised that components in the report had been taken from previous reports which had been submitted jointly to all three authorities, which was the reason for the reference to library closures.

The Chair reiterated her earlier request to all relevant officers that reports being submitted to the Sub-Committee should be relevant, timely and accurate. She added that if in the future Sub-Committee Members were not satisfied with the quality of reports, then they would be obliged to send them back to officers for amending.

A Member asked what measures were in place should one authority decide to withdraw from the agreement. The officer advised that the contract had been formulated so that any authority withdrawing would be liable to pay compensation. The Member asked what proportion of the £140m figure Harrow was committed to. The officer undertook to circulate this information to Members.

The Member asked for further information regarding the shortfall in the pension fund and whether the anticipated savings would offset this. The officer stated that officers had carried out detailed analyses with the Pension, Finance and Actuarial teams, who had advised that the risk of this was low. The Member emphasised that the Pension Fund was owned by Pension Fund Members and not the Council. The Member added that this situation was a similar to pension fund arrangements for the 7 Harrow schools which had converted to Academy status.

The Director of Finance and Assurance advised that all staff would be subject to Transfer of Undertakings (protection of Employment) Regulations (TUPE) and that the new body would be an Admitted Body and would continue to pay off the deficit at the current rate and the liability would not be passed on. The Member stated that Harrow Council should draw up a contract with the pension fund to set out how it would be paying the deficit. The Director stated that the pension fund would not be penalised under the arrangements. The Chair stated that this complex issue would require further discussion at the Pension Fund Investment Panel.

A Member stated that the report failed to establish in Members' minds whether or not the proposed contract was value for money for Harrow and requested that further information be provided to Members. The Chair requested that an additional briefing be provided to Scrutiny Members prior to the 9 May Cabinet meeting.

RESOLVED: That the report be noted.

128. Planning Service - IT infrastructure

The Sub-Committee received a report of the Divisional Director of Planning which set out the recent IT issues affecting the consultation processes in respect of planning applications. The Divisional Director highlighted the following aspects of the report:

- there had been concerns raised by some parties regarding website accessibility of the Civica Portal and planning documents relating to the Vaughan School consultation;
- between 24 February and 16 March 2013 access to the website had not been possible for a period of 16 hours in total. It had therefore been necessary to suspend the consultation on the Vaughan School planning application and remove the documents from the website and re-start the process. It was important to note that the Vaughan School re-consultation had run for 62 days prior to being considered by the Planning Committee at their meeting in April;
- IT colleagues had proposed a number of both short and long-term solutions. The main issues related to the software platforms, Civica and MVM, which was a back-office system. These programmes had been partially integrated with each other, however, investigations had revealed that the Civica Portal had a “memory leak,” which could only be resolved through a software upgrade;
- the Council had a choice between a lower cost, modest upgrade, which would resolve the memory leak or a more expensive solution with a longer lead-in time and more significant knock on impacts across other services using Civica. Longer lead-in times meant reduced benefits. Officers, in consultation with the relevant Portfolio Holder, were weighing up costs, timescales and potential benefit of implementing these.

A Member stated that he was disappointed to see that the option of shared services as a possible solution had not been considered. The officer advised that officers have an ongoing dialogue with other Local Authorities about alternative delivery options. Neighbouring authorities had suggested that they had little interest (or clear financial incentive) to engage in developing such options at the present time. Officers from Harrow were however continuing to consider all possibilities. Other possible options included changing to larger-volume processing service such as provided by Northgate off site or the use of an alternative planning portal using Sharepoint.

The Member stated that the report should have included values for upgrades to version 15 of Civica and for the other possible options. An officer stated that he had only recently received indicative figures regarding this from Capita, which suggested that an interim upgrade to version 15 would take between 7-8 months to complete. Officers were awaiting further information from Northgate on the scope to move away from the current Civica based process. He added that the Council’s policy had been to get maximum use

from assets for as long as possible, and that Harrow had been using an out of date system for some time. The Member asked to know the timescales for the solution to be implemented. The officer advised that this information would be available once all the relevant information had been assessed and discussions had taken place with relevant parties such as Northgate and Capita. He undertook to circulate this information to Members once available.

RESOLVED: That the report be noted.

129. Exclusion of the Press and Public

RESOLVED: That, in accordance with Part I of Schedule 12A to the Local Government Act 1972, the press and public be excluded from the meeting for the following item for the reason set out below:

<u>Item</u>	<u>Title</u>	<u>Reason</u>
9.	Contracts and Procurement Savings	Information under paragraph 1 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)).

130. Contracts and Procurement Savings - Appendix 3

The Sub-Committee considered the appendix relating to Housing Asset Management: Responsive Repairs Contracts. A Member requested that information relating to savings that had been made in 2012/13 and anticipated savings in subsequent years on the four responsive repair contracts be circulated to Members.

(Note: The meeting, having commenced at 7.30 pm, closed at 9.56 pm).

(Signed) COUNCILLOR SUE ANDERSON
Chair