CORPORATE SERVICES SCRUTINY COMMITTEE

23 March 2017

Present:-

Councillors J Brazil (Chairman), A Boyd, P Colthorpe (Vice-Chair), M Edmunds, G Gribble, R Hosking, R Julian, J Knight, R Rowe and R Westlake

Apologies:-

Councillors J Owen

* 38 Minutes

RESOLVED that the minutes of the meeting held on 24 January 2017 and the minutes of the Joint Budget Scrutiny meeting of 30 January 2017 be signed as a correct record.

* 39 Items Requiring Urgent Attention

There was no item raised as a matter of urgency.

* 40 Chairman's Announcements

The Chairman welcomed Sir Simon Day who was attending the meeting in his capacity as a Co-opted Member of the Council's Standards Committee to observe and monitor compliance with the Council's ethical governance framework.

* 41 Public Participation

There were no oral representations from Members of the Public.

* 42 Internal Audit Plan 2017/2018

The Committee considered the Report of the Head of the Devon Audit Partnership (CT/17/26), on the Internal Audit plan for 2017/2018 which outlined an indicative Corporate Services internal audit plan for 2017/18, covering a total of 549 audit days.

The report outlined that Audit had met with management to discuss risks and how audit resources could be used effectively to provide assurance against those risks. The draft plan formed part of a larger audit plan covering the whole Authority (which would be presented to Audit Committee on 28th March 2017).

Members noted that whilst responsibility for review, direction and approval of the internal audit plan lay with the Audit Committee, there was added value in working with Scrutiny in the provision of assurance to the authority.

The audit plan showed the proposed internal audit activity for the year and an outline scope of coverage, which included Material Systems, Corporate Services - (Excluding Anti-Fraud & NFI), Digital Transformation and Business Support, Grant Certification and Anti-Fraud and Corruption including NFI.

The Committee discussed and asked questions on the planned audit work into fraud and fraud prevention and the potential for fraudulent activity within the organisation, including the numbers of incidents and then for clarification of how the number of audit days required was calculated and whether the risk status impacted on this.

Members suggested that a mid-year audit report might be of use to the new Council to focus the Committees work programme and that the key themes often brought to members attention were on issues such as adult social care, roads and potholes and more recently education funding and pressure on schools.

It was **MOVED** by Councillor Brazil, **SECONDED** by Councillor Gribble; and

RESOLVED that the outline audit plan be noted and the comments made by members, as outlined above, be considered by the new Council.

* 43 Risk Management

The Committee received the Report of the County Treasurer (CT/17/24) on the Corporate Risk Register, identifying the 25 risks on the corporate risk register, which were outlined in full at Appendix A to the report.

The report highlighted the changes that had been made since the Committee last reviewed the register, including any increased risks, those that had reduced, new additions to the register as well as those that had been removed.

The report further outlined there were currently 10 risks that had a current status of 'Very High' meaning they were both likely to happen and would have a significant impact if they did. Those risks were generally related to the People or Place service areas, and it was suggested might be better discussed at the relevant Scrutiny Committees.

The current Corporate Service Risk register contained 11 entries which Members could consider in more detail, with eight of those risks relating to various aspects of Human Resources.

Members had previously agreed to use the Risk Register to focus their work programme activities. Risk Management enabled the efficient use and allocation of resources, more informed, transparent and accountable decision-making and allowed the Council to focus on its most critical areas.

Members identified the following issues for discussion at the meeting.

- Appointment and Hiring of Consultants; and
- Failure to deliver priority services as a result of significantly reduced finances.

In terms of general discussion on the Risk Register, Members discussed and asked questions on the decision making process behind either adding risks to the register or removing them and also clarification of why particular risks appeared to have been removed (e.g school transport) as well as the various levels of risk monitoring throughout the organisation. In addition, for clarification on 'green' mitigating controls, when the risk was deemed high or very high (e.g HTM1 relating to failure to maintain C class roads).

The Head of Human Resources then responded, in respect of the appointment and hiring of consultants, as identified by the Committee prior to the meeting, advising the Committee that a previous audit had shown a failure by the Council to comply with policy in 5 out of 10 cases whilst appointing or hiring a Consultant . In response, there had been a number of mitigating measures implemented including a single policy across the organisation, an approval process requiring the consent of the Chief Executive and also an internal awareness and communications strategy.

Members asked for clarification on how Members might be engaged, particularly with commissioned services, the position with former staff members being engaged as consultants and that the appointment of specialist legal advice / counsel did not form part of the policy, rather it was subject to a separate procurement framework.

The Chief Accountant (Corporate Services) then responded, in relation to the risk of 'failure to deliver priority services as a result of significantly reduced finances', to the Committee's concern that the risk had reduced from high to medium, despite the Councils continued budgetary pressures. He advised that the risk would likely fluctuate between various risk levels and also undertook to arrange for the amendment of future risk registers with an explanation of why risks had been removed from the corporate risk register.

* 44 Scrutiny in a Commissioning Council Task Group update

The Committee received the report of the County Solicitor (CS/17/15) which provided an update on the actions and recommendation implementation of the Commissioning Scrutiny Task Group Report, which had been published in March 2016, and subsequently endorsed by Cabinet.

The Task Group had made four key recommendations directed at Council Officers, Cabinet and Scrutiny Members, which would help to strengthen scrutiny's role and impact around commissioning.

The report outlined that Councillor Parsons (Cabinet Member for Performance & Engagement) had been working with officers from the Council's Procurement, Legal and Democratic Services & Scrutiny teams to take forward the recommendations and that a number of practical ways forward had been established.

It further noted what actions had been taken again each of the four recommendations, namely

- R1 – to strengthen communication and collaboration between Cabinet Members and Heads of Service and Scrutiny Committees, in relation to commissioned services;
- R2 - For Scrutiny to engage with and contribute to the development of the re-commissioning of services, and the new commissioning of services, at the earliest possible stage;
- R3 - Ensure that the Council's 'joint venture partners' and external providers of large contracts, may be held to account and be subject to Scrutiny; and
- R4 - All Scrutiny Members to receive assurance and have the opportunity to scrutinise the performance of joint venture partners and large providers.

Members noted it would be for the Scrutiny Committees of the new Council to work with Cabinet Members and council officers to develop the work further and that also training on Commissioning / Commissioned Services would form part of the induction programme for the new Council.

Members asked for clarification on the legal position of Scrutiny for holding people to account, particularly representatives of and organisations who were responsible for services which impacted on residents of the County, for example providers of Broadband services.

* 45 State Pension 'Triple Lock'

Members received a presentation on the available data on the economic impacts of the state pension triple lock.

The Committee had agreed to consider this issue under its work programme, following Councillor Greenslade's Notice of Motion - Pensions 'Triple Lock' (County Council Minute 75 of 8th December 2016), which had been referred to the Cabinet for consideration. The Cabinet had outlined that whilst State Pensions were the responsibility of Government and the ability of any Council to directly influence the impact of Pensions administration were limited, the County Council has previously considered and taken a view on the impact of changes upon individuals or categories of pensioners residing in Devon. Whilst Cabinet would not direct a Scrutiny Committee to look at a particular issue, it **RESOLVED** that the Corporate Services Scrutiny Committee be invited to examine the matters outlined in the Notice of Motion and comment to this Cabinet thereon prior to any recommendation being made to the County Council in accordance with Standing Orders 6 and 8.

The presentation outlined the current and ongoing changes to the state pension, clarification of the 'triple lock' guarantee, the long term fiscal cost and sustainability issues, comparative figures on the growth of the state pension with work place earnings, the regional equivalised household income (after housing costs), the potential changes to the triple lock guarantee including political will and the publication of the statutory review in May 2017 and also the potential implications for Devon including its older than average population, the growth rate of that population and projections of the growth into the future.

The Committee raised and identified the following issues;

- That a copy of the presentation be made available to all members;
- The pressure on the existing working population especially with the current and projected demographics of the County;
- That the automatic enrolment for employers could assist, notwithstanding it not being compulsory for employees to register; and
- A concern that many people had little or no pension provision for older age.

It was **MOVED** by Councillor Gribble, **SECONDED** by Councillor Westlake; and

RESOLVED that, while acknowledging State Pensions were the responsibility of Government and the ability of any Council to directly influence the impact of Pensions administration was limited, the Cabinet and Council be urged to exercise its community leadership role and endorse the Notice of Motion and make representations to Government, through Devon MP's, to minimise the impact of changes upon individuals or categories of pensioners residing in Devon, given the demographics of and relatively low levels of earnings in the County, the potential impact upon the economy of the County, the pressure on the existing workforce and the projected costs of pensions for its residents.

[NB: All Members of the Council had been granted a dispensation to allow them to speak and vote in any debate on this matter by virtue of being in receipt of or affected by any changes to the state pension provision]

* 46 Scrutiny Work Programme

The Committee reviewed the Scrutiny Work Programme and determined those items of business to be included therein for its sphere of activity, having regard also to the Council/Cabinet Forward Plan, also noting that the new Council would determine its own work programme.

RESOLVED that the work programme, as outlined, be noted.

* 47 Briefing Papers, Updates & Matters for Information

There had been no items of correspondence received.

***DENOTES DELEGATED MATTER WITH POWER TO ACT**

The Meeting started at 2.00 pm and finished at 3.33 pm

The State Pension ‘triple lock’ guarantee:
Explanation, analysis and implications

Slide pack for Devon County Council

Current and ongoing changes to State Pension

Minute Item 45

- Through various pieces of legislation, Government is in the process of increasing the State Pension Age (SPA).
  - between April 2010 and November 2018, women's SPA will increase from 60 to 65.
  - by October 2020, the equalised SPA will increase to 66, rising again to 67 by April 2028. The Pensions Act 2007 legislates for a further increase to 68 between 2044 and 2046.
- The 2014 Pensions Act commits Government to a statutory review of the State Pension age each parliament, with John Cridland appointed to complete an independent report.
- The report will inform the first statutory review, to be published by 7th May 2017. The independent review **will not** cover the existing SPA timetable to April 2028, but will aim to identify how changes in life expectancy and wider changes in society impact on the State Pension's sustainability.
- From April 2016, as set out in the 2015 Spending Review, the Basic State Pension is £119.30 a week, with the rate of the single tier pension set at £155.65 a week.

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The State Pension 'triple lock' guarantee

- The triple lock was introduced by the Coalition Government in the 2010 Budget and implemented in 2012.
- The triple lock uprates the Basic State Pension and the New State Pension annually by the highest of:
  - price inflation, measured by the Consumer Price Index (CPI);
  - average earnings growth; or
  - 2.5 per cent.
- Historically, the triple lock has been driven by either the Consumer Prices Index or the 2.5% minimum threshold, with CPI inflation driving the highest recorded annual change, at 5.2%, in 2012-13.

	2.5 per cent	Consumer Prices Index (a)	Earnings growth (b)	Triple lock - Basic & New State Pension uprated by:
	%	%	%	%
2012-13	2.5	5.2	2.8	5.2
2013-14	2.5	2.2	1.6	2.5
2014-15	2.5	2.7	1.2	2.7
2015-16	2.5	1.2	0.6	2.5
2016-17	2.5	-0.1	2.9	2.9
2017-18 (c)	2.5	0.6	2.4	2.5
2018-19	2.5	1.6	3.6	3.6
2019-20	2.5	2.1	3.5	3.5
2020-21	2.5	2.0	3.5	3.5

The Work and Pensions Committee, 'Intergenerational Fairness Inquiry', 2016

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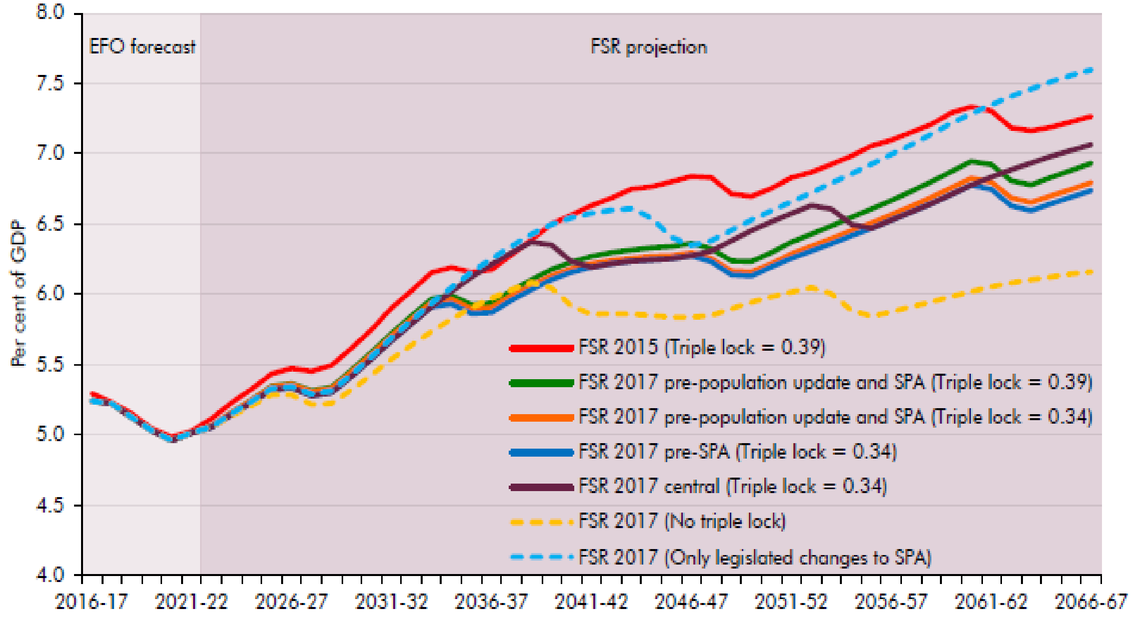
Long-term fiscal cost & sustainability

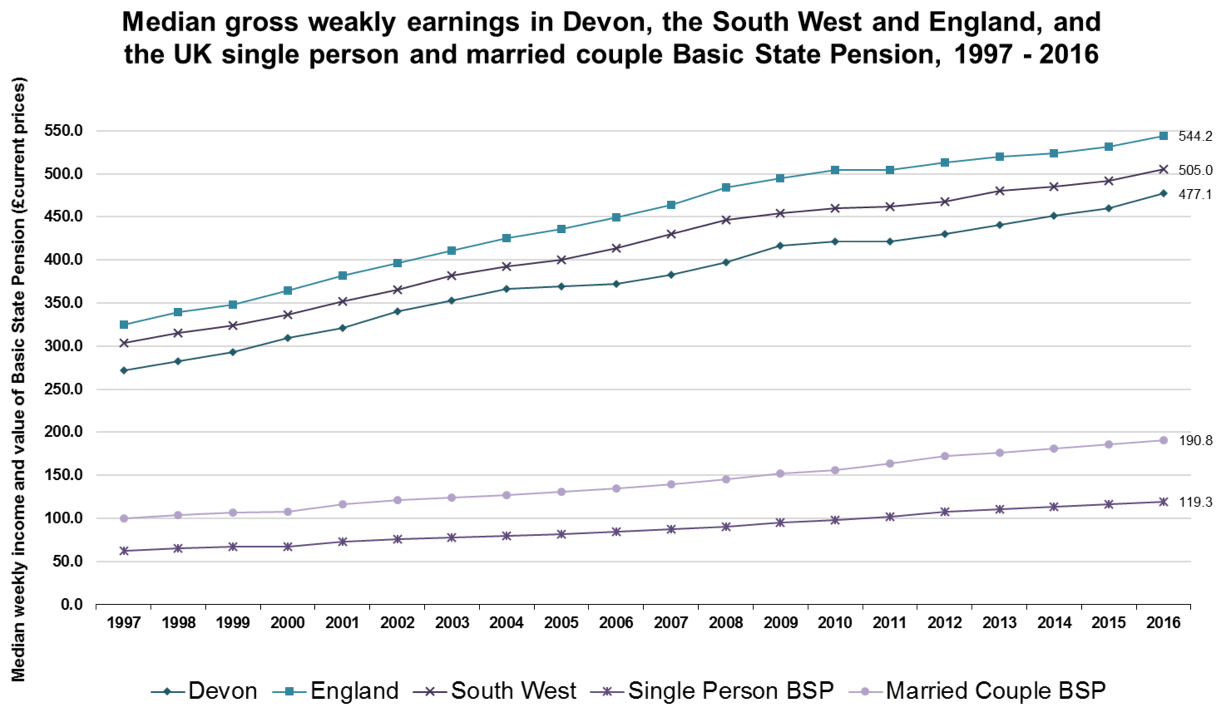


Source: OBR

- The triple lock is expensive. The FT reported in October 2015 that the triple lock cost £6bn more than the cost of increasing pensions in line with earnings or inflation, based on Government Actuary's Department calculations[1].
- By 2020-21, the State Pension will cost about 5% of GDP, rising to 7.1% in 2066-67 under the OBR's central projections for the triple lock. Assuming constant revenue over the forecast period, upward demographic pressure will almost triple the public sector debt as a share of GDP over the next 50 years.

'UK pension triple lock costs extra £6n a year, says report', Financial Times, 13/10/2015 (Available at: https://www.ft.com/content/e344e79c-71af-11e5-9b9e-690fdae72044)

Comparing the growth of workplace earnings with the growth of the state pension (1)



Source: ONS, Annual Survey of Hours and Earnings, and Royal London, Basic State Pension rates and factors data

- The value of the Basic State Pension remains substantially below median gross weekly earnings in Devon, the South West and England.
- However, between 1997 and 2016, the Basic State Pension grew by about 90%, compared with wage growth of 75% in Devon, with compound annual growth rates of 3.5% and 3.0% respectively.

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Comparing the growth of workplace earnings with the growth of the state pension (2)

- The historic rate of growth in the Basic State Pension broadly tracked changes to earnings
- However, a gap has opened between the Basic State Pension and median earnings growth since 2010, when the triple lock was introduced.

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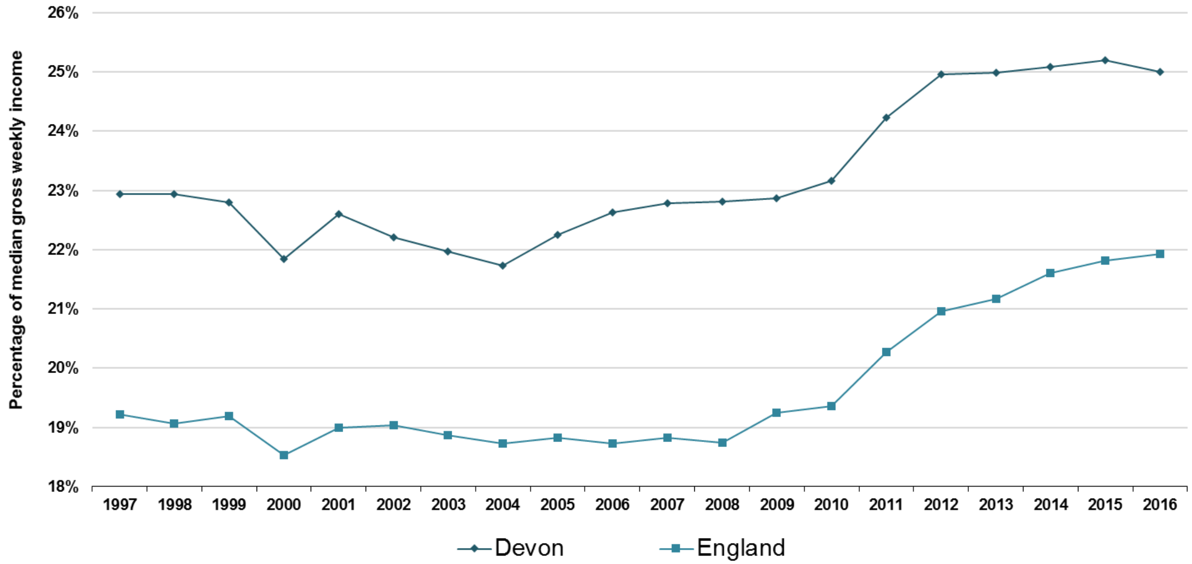
Comparing the growth of workplace earnings with the growth of the state pension (3)

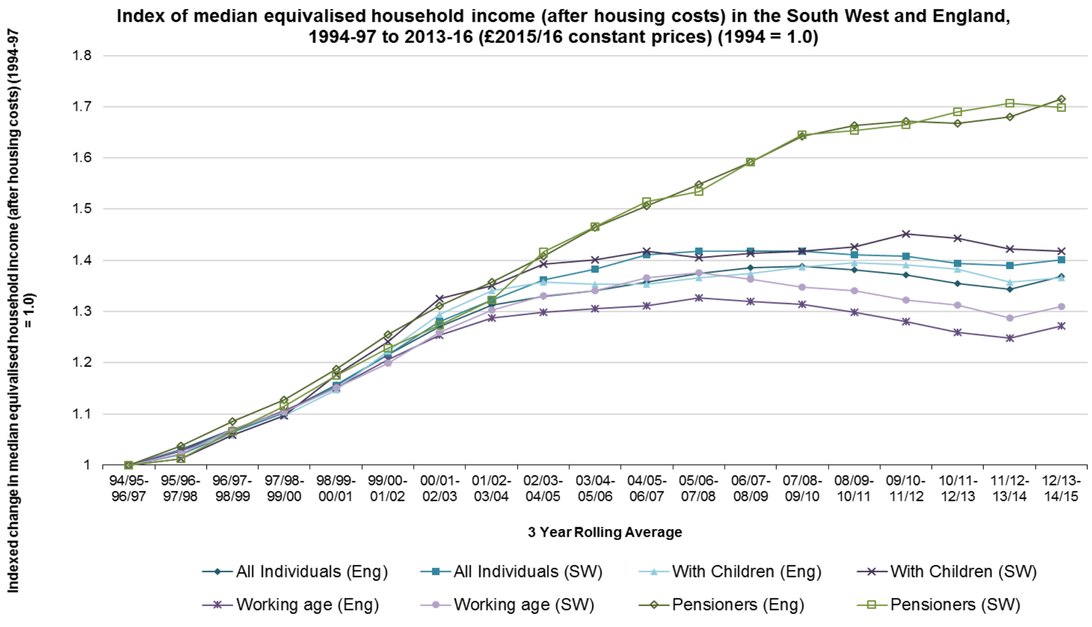
Single person Basic State Pension as a percentage of median gross weekly earnings for Devon and England, 1997 - 2016



Source: ONS, Annual Survey of Hours and Earnings, and Royal London, Basic State Pension rates and factors data

- As a result of rapid growth since 2010, the value of the Basic State Pension is now equivalent to about 25% of median gross weekly earnings, up about two percentage points from the an average of about 23% between 1997-2010.
- While the pattern is similar for England, the lower ratios reflect higher median gross weekly earnings at the national level.

Understanding regional equivalised household income (after housing costs) in the South West



DWP, 'Households Below Average Income' 1994/95 - 2015/16

- The DWP's Households Below Average Income dataset provides detailed data on the median total household income of pensioners compared with the rest of the population. These data include non-State Pension sources of income and are measured after housing costs (noting that many pensioners have paid off their mortgages).
- Reflecting trends identified earlier, pensioner income has grown at a much faster pace than the working-age average, at a compound annual growth rate of 2.9% over the 1994-97 – 2013-16 period (compared with 1.6% for working-age). In absolute terms, this means that median equivalised pensioner household income after housing costs is now £419 per week, compared with £429 among the working-age population.

Potential changes to the triple lock guarantee

- In the 2016 Autumn Statement, Phillip Hammond said Government would "meet our pledge to our country's pensioners through the triple lock" for the duration of the current Parliament. However, in the 2017 Spring Budget, the Chancellor said public spending commitments in the next Parliament "will need to be determined in light of evolving prospects for the fiscal position".
- More broadly, political sentiment seems to be turning against the current system, with;
  - the Work and Pensions Committee reporting that the triple lock is "inherently unsustainable". The committee instead recommended that the underpinning 2.5% minimum increase be removed and a smoothed earnings link applied to ensure pensions remain responsive to change in earnings and inflation;
  - former Pensions Minister Ros Altmann has argued that the triple lock will have achieved its goal of returning the State Pension to an appropriate level by 2020 and should thereafter be replaced by the earnings and inflation double lock; and
  - the Intergenerational Foundation has suggested that above inflation or earnings growth increase to the State Pension is unfair when working age benefits have stagnated, with the Institute for Fiscal Studies arguing that there is "no plausible objective to which the triple-lock is the best solution".
- However, Labour has committed to "preserving the triple lock throughout the lifetime of the next Parliament" while the SNP pensions spokesperson has also said the SNP would keep the guarantee.
- The statutory review to be published in May will provide the clearest indication of the current system's sustainability and the triple lock's prospects going forward.

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Implications for Devon

- Devon has an older-than-average population, with residents aged 65+ accounting for about 24.5% of the county's total population (190,000 of 773,100) in 2015, compared with an England average of 17.7% and South West average of 21.4%.
- Devon's 65+ population has also grown faster than the national average, at 1.8% per year (CAGR) between 2001 – 2015, compared with 1.6% for England and 1.7% for the South West.
- ONS Sub-National Population Projections project 65+ residents to account for 31.9% of Devon's population by 2039, compared with 24% nationally. On these projections, the annual growth rate for Devon's population aged 65+ is 1.6%, compared with 0.5% nationally.
- While it is difficult to estimate how much of – and to what extent – Devon's population is dependent on the State Pension for income, any changes to the triple lock will be an important factor going forward.
- However, over recent years, Devon's employed population has seen very little growth in earnings while State Pensions – which are important for a large proportion of the population – have risen quickly

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