MINUTES OF THE PERFORMANCE AND FINANCE SELECT COMMITTEE
Monday, 8th December 2008 at 7.30 pm

PRESENT: Councillor Dunn (Chair), Councillor H B Patel (Vice Chair) and Councillors Bessong (part), Butt, Mistry, Pagnamenta (part) and Van Kalwala.

Apologies for absence were received from Councillors Ahmed and Mendoza.

Councillors Lorber (Leader of the Council and Lead Member for Corporate Strategy and Policy Co-ordination) and Van Colle (Lead Member for Environment, Planning and Culture) also attended the meeting.

1. **Declarations of Personal and Prejudicial Interests**

   None declared.

2. **Deputations**

   None.

3. **Minutes of the Previous Meeting – 8th November 2008**

   RESOLVED:-

   that the minutes of the previous meeting held on 8th November 2008 be received and approved as an accurate record.

4. **Matters Arising**

   None

5. **Deposits with Icelandic Banks - Update**

   Duncan McLeod (Director of Finance and Corporate Resources) introduced the report and announced that representatives from Butlers, the Council's Treasury advisors, were present to respond to Members' questions as requested by the Select Committee at the previous meeting. Duncan McLeod informed Members that the Minister for Local Government, John Healey MP, had advised that repayment of loans from Icelandic Banks to local authorities would take some time but that the government was in the process of issuing regulations that would mitigate the impact on the 2008/09 accounts and the 2009/10 budget. Duncan McLeod drew Members' attention to the proposals for Management Information and Training for Members in the report and he welcomed any comments from the Select Committee with regard to this.

   Chris Anthony (Butlers) then circulated a document detailing the activities of Butlers and the service they provided to the Council.

Members heard that Butlers had been appointed by the Council 2 years ago and their services included providing:-

- An overview of the Council's financial position
- Forecast of interest rates (over 1 and 3 year periods) and economic advice
- Debt portfolio reviews, borrowing and debt rescheduling
- Technical advice on capital finance, including the provision of model treasury reports
- Training
- Guidance on the Council's investment structure; and
- Credit rating information, particularly on banks, from the 3 main agencies – Fitch, Standard and Poors and Moodys

Chris Anthony then drew Members' attention to the analysis of the Council's balance sheet and the cash resources available. This was followed by an explanation as to what had happened to the Icelandic banks. The deterioration of the world banking situation in August 2008 was principally due to a lack of liquidity, with banks becoming increasingly reluctant to provide loans to each other, meaning many were facing problems in paying back debts owed. A key event during this period was the collapse of Lehman's bank, leading to what was termed a 'financial tsunami'. The resulting impact meant that an increasing number of banks were perceived as too high a risk to secure further loans. This included some Icelandic banks, who by early October 2008 had lost a significant level of liquidity, whilst the Iceland Government had overestimated its own ability to support the Icelandic banking system. Chris Anthony advised that the Council's 2 deposits with Icelandic banks Heritable and Glitnir were currently under discussion with the Icelandic authorities and repayment arrangements depended on the administrators of these 2 banks. At this stage, it was felt that the loans to Heritable Bank were reasonably safe as it appeared that its assets were in excess of its liabilities. The situation with Giltnir was less clear, although the bank had become part nationalised.

Chris Anthony advised that Council loans were generally provided to those organisations with the highest credit ratings, with higher rated institutions generally receiving higher deposits and lesser rated smaller deposits. For the future, the Council needed to consider whether it should spread the risk of its deposits and acquire lower credit quality or concentrate investments in 1 or 2 highly rated banks, and to strike a balance between risk and performance. Other measures the Council could consider included use of credit default swaps, further analysis of share prices, use of sovereign credit ratings linked to the Government and other research such as that provided for fund managers, although no measures would guarantee a risk free investment.

The Chair acknowledged that the Council's loan profile historically had been low risk, however he enquired how confident Butlers and the

Council were about the information they received from the credit rating agencies and what action or advice had been given since the ratings had been placed on watch in April 2008. Councillor H B Patel sought an explanation as to why the Council had been advised to invest in the 2 Icelandic banks when the world's economic problems had been evident for some time. He expressed concern that Heritable's main assets were in property, a market which had been significantly affected by the economic downturn. Councillor Van Kawala commented that the Icelandic banks offered good rates because of the relatively little capital they held and he enquired whether the Council was advised that its deposits could be at risk in times of economic slowdown and expressed concern that the risks had not been highlighted as late as August 2008. He felt that there was an over-reliance on credit rating agencies and asked if there were any doubts on their objectiveness. Councillor Mistry also expressed concern about the timing of the loans and the quality of the information provided by the credit rating agencies and asked if any indication could be provided for the timescale of repayments of the loans to the Council. Councillor Bessong stated that the Council should be wary of the potential for the conflict of interest with regard to the credit rating agencies and felt that all practical measures should be taken to recoup as much of the loans as possible.

In reply to the issues raised, Chris Anthony began by advising that Icelandic banks went on ratings watch in April 2008 but in June 2008 Fitch had removed the ratings watch. In addition, the part nationalisation of Glitnir bank had given rise to the view that the bank was secure. However, the collapse of the Icelandic banking system was totally unexpected and had not been foreseen by the major credit rating agencies. Furthermore, Heritable and Giltnir banks had not been involved in providing sub-prime mortgages that had put other banks such as Northern Rock in difficulty and with the information available at the time, the 2 Icelandic banks had not been perceived as a risk. However, the lack of liquidity had spiralled so rapidly that many banks were unable to refinance. The Select Committee noted that Butlers did not advise on specific investments. With regard to the large property portfolio held by Heritable Bank, Chris Anthony emphasised that it was important to discourage the liquidators from engaging in a fire sale of properties and the Local Government Association (LGA) would be involved in negotiations with regard to this. Members heard that the Council had not received advice that the Icelandic bank deposits were at risk during the summer of 2008 as none of the leading credit rating agencies had indicated that they posed such a risk.

Chris Anthony accepted that there was a degree of over-reliance on credit rating agencies, although these agencies claimed to obtain information from a number of sources, however the information could never be 100% reliable. In light of events, it was hoped that the credit rating agencies would review the sources and methods of their research and it was possible that the European Union and national governments would request changes to the criteria used. Chris

Anthony acknowledged that a potential conflict of interest existed with credit rating agencies as they also carried out assessments on behalf of banks, although they still remained the most objective organisations available. It was possible that, in order to increase objectivity, users of the credit rating agencies would need to pay for the services rather than banks paying to have themselves rated. He advised that the repayment of loans was dependent upon how the banks were wound down or re-constituted and this was likely to be a lengthy process.

In response to the events which had happened, the Council had reduced its lending list significantly. This, together with falling interest rates, would reduce interest received on the Council's balances.However, this may be offset to some extent by savings made on interest paid through debt restructuring. The Select Committee heard that it would not be prudent to invest in corporate bonds at this stage.

The Chair concluded by stating that there appeared to be a compelling need for credit rating agencies to review how they produced the ratings and the information sources they used and he encouraged Butlers to persuade the agencies to undertake this.

6. **Waste Contract Performance**

Chris Whyte (Head of Environment Management, Environment and Culture) and Ian Stewart (Waste Service Manager, Environment and Culture) were present to respond to Members questions on the report.

Councillor Bessong sought reasons for the drop in recycling and re-composting in October 2008. Councillor H B Patel enquired what measures would be taken to continue to reduce waste sent to landfill in the long term. He also enquired whether there were any steps to introduce inexpensive but effective recycling facilities that were available for blocks of flats in Islington. Councillor Mistry asked how the increase in missed bins collection would be addressed and whether supermarkets would be encouraged to reduce packaging.

With regard to compulsory recycling, the Chair commented that some residents in multi-occupancy dwellings had reacted angrily for seemingly being accused of not participating in the scheme when they had and he suggested that the letter could be revised for these type of properties.

In reply, Chris Whyte advised that seasonal conditions had a significant impact upon recycling in October 2008, particularly because of contamination to organic waste. He felt that Compulsory Recycling would play a major part in increasing recycling. In the longer term, the Council aimed to recycle 40% waste by 2012, whilst Veolia's target for 2010 was 30%. A number of proposals were being considered to reach these targets, including the methods by which waste was collected. Another issue that needed to be addressed was increasing the capacity of the recycling containers used. With regard to increased missed bin collections, Chris Whyte advised that such incidences coincided with changes to the refuse collection service, such as the introduction of same day collection for waste and recycled waste and missed bin collections had since reduced. Chris Whyte acknowledged that some residents had expressed disappointment when they felt that they were being wrongly accused of not participating in compulsory recycling, stating that letters were sent to all occupants where non-participation had been identified. He also agreed that the recycling arrangements for blocks of flats as used by Islington Council was sound and that such ideas would be considered after efforts on increasing recycling through schemes which could be implemented widely and quickly, such as Compulsory Recycling, had been successfully delivered. He also felt that supermarkets should be pressurised into reducing packaging, although this was an area that the Government would be expected to address.

Ian Stewart added that missed collections had sometimes been erroneously reported in the past, such as incidences when operatives had left notices to explain why waste could not be collected due to irregularities. However, reporting methods had since changed to accurately reflect the number of missed collections which were now falling.

Councillor Van Colle (Lead Member for Environment, Planning and Culture) advised that a problem that needed to be addressed was that of commercial waste infiltrating domestic waste and therefore passing on the cost of disposal to the Council.

The Chair requested that the next Waste Contract Performance update be presented at the Select Committee meeting on the 25th March 2008.

7. **Complaints Annual Report**

Susan Riddle (Corporate Complaints Manager) introduced the report, stating that overall a positive picture had emerged with the number of complaints going to the Local Government Ombudsman (LG)) again decreasing from the previous year and at its lowest for 10 years. The LGO annual letter had similarly been positive and the Ombudsman had not issued any formal reports against the Council during the year. There were, however, areas for improvement, such as the need to increase the number of complaints to be resolved at the 1st stage of the Council's internal procedure. The first 2 quarters for 2008/09 showed that the number of complaints had continued to decrease, particularly in Revenue and Benefits where significant improvements had been recorded.

During discussion, Councillor H B Patel queried the reasons why 63 complaints were referred by the LGO back to the Council and commented that with a little more care, these would never have been submitted to the LGO. He also asked for a comparison of the Council's performance with other local authorities. Councillor Mistry enquired what measures would be taken to address the increase in the number of complaints reaching stage 2 in Children and Families. The Chair asked whether the complaints received with regard to Environment and Culture were concentrated in a particular area.

In reply, Susan Riddle advised that some complainants may not have been aware of the Council's complaints process, hence their initial submission of their complaint to the LGO. With regard to Environment and Culture complaints, these mainly focused on the StreetCare service and Planning matters, although the vast majority of these were resolved at the 1st stage of the complaints process. Members heard that the Council compared favourably with other local authorities, with the number of residents satisfied with the way their complaint was handled above 35%, which exceeded the national average. The Council also compared favourably with other local authorities in terms of performance on LGO complaints. With regard to Children and Families, Susan Riddle advised that although complaints had increased, this also reflected a more open system in the way complaints were handled which would benefit the service area in the long term.

8. **Asset Management Task Group Report 3**

Duncan McLeod introduced the report which provided information derived from a questionnaire sent to other local authorities with regard to their leasing policies for council-owned properties to community groups. Members heard that the councils that had responded to the questionnaire included Harrow, Hammersmith and Fulham, Hertfordshire, Hillingdon, Hounslow, Kensington and Chelsea and Westminster, as well as information from the West London Network. Duncan McLeod drew Members' attention to Brent's own leasing policy and in particular ways in which it could reclaim assets through specific clauses in leases and compared these with clauses used by other local authorities. Members were advised that the Council was currently reviewing the opportunity for asset transfers in response to the Quirk Report and other local authorities responding to the questionnaire had similarly responded positively to the Report. The Select Committee heard that the Council was working with the Brent Association for Voluntary Action (BrAVA) with regard to the possibility of setting up a Voluntary Resource Centre to be operated and managed by the voluntary sector. Feedback to local authorities from the voluntary sector regarding leasing arrangements had been modest to date, although in Brent's case it was possible that many voluntary groups fed back to BrAVA directly. Duncan McLeod reminded Members that there would be one further report on this topic which would include the Task Group's proposals.

Phil Churton (Head of Estate Management, Property and Asset Management) added that the processes involved in engaging with the voluntary sector were gradually changing and feedback was increasing. Furthermore, the move to the Civic Centre would provide an opportunity for a more dynamic relationship to exist between the voluntary sector and the Council.

Councillor Mistry commented that BrAVA had indicated that they often felt alienated from the Council who they wished to have closer ties with and she felt that a more joined-up approach was required with more effective communication between the Council, BrAVA and other voluntary organisations.

In response, Cathy Tyson (Assistant Director – Policy, Policy and Regeneration) advised Members that as a partner organisation of the Local Strategic Partnership (LSP), BrAVA received a regular flow of information on the strategic aims of the local area and the Council and on the contracts the Council put to tender. The Council shared demographic information with BrAVA and quarterly meetings were held between the Chair of BrAVA and the Council's Chief Executive. In addition, BrAVA had access to a variety of other sources of information and to key decision-makers and enjoyed a high level of dialogue overall with the Council. Cathy Tyson also explained that there were some officers in the Policy and Regeneration Unit who worked extensively with BrAVA and held individual meetings with them on a number of issues, such as Local Area Agreement (LAA) stretch targets. It was noted that BrAVA had been allocated funding to improve communications between it, other voluntary organisations and the Council.

The Chair reminded Members that a Task Group meeting was required in January 2009, the date of which was to be determined and in the meantime he sought volunteers for this meeting. He emphasised the importance of the Task Group producing a clear, concise report with proactive suggestions, particularly as the report may be of some interest to other local authorities.

RESOLVED:-

that the report on Asset Management Task Group Report 3 be noted.

9. Value for Money Benchmarking for Corporate Services

Peter Stachniewski (Deputy Director of Finance and Corporate Resources) introduced the report and advised that the Budget Panel had initially requested the work on this topic. The report provide information on the work carried out by the UK Public Sector Audit Agencies which included consideration of the costs of services, good practice and how the various services were perceived by the customers. Peter Stachniewski drew Members attention to the appendices in the report which set out the various benchmarking measures for 5 areas, which were Procurement, Finance, Human Resources, Estate Management and Information and Communications Technology. Members heard that the Institute of Public Finance was collecting data on the indicators and over 80 organisations, including the Council, had taken part, with the first report produced in June 2008 based on data collected for 2006/07. The data from the first year was not easy to interpret for a number of reasons, such as the way information was collected by the various organisations and how corporate services were organised. For example, some organisations were heavily centralised, whilst others, such as the Council, were relatively devolved.

Peter Stachniewski did not go into details of what the nbenchmarking for all services but pointed out that, for Finance, the information appeared to show that the Council was a comparatively high cost organisation, possibly due to the large number of manual processes undertaken. Only a small percentage of costs related to transactions or business support and approximately 55% of costs could not be directly accounted for, primarily because of the devolved nature of the Council. Work was being undertaken on what the data meant and the issues it raised and this would be reflected in work being carried out as part of the Improvement and Efficiency Programme. Peter Stachniewski commented that this may be a topic the Select Committee would wish to re-consider at a future meeting. He also advised that the Council undertook a number of other benchmarking exercises, such comparisons with other members of the West London Alliance.

The Chair acknowledged the complexities involved in interpreting the information and Members noted the report.

RESOLVED:-

that the report on Value for Money Benchmarking for Corporate Services be noted.

10. **Performance and Finance Review 2008/2009, Quarter 2**

Cathy Tyson introduced the Performance element of the report and advised that performance had improved in quarter 2 in the areas of Income Maximisation, Domestic Violence Projects, Volunteering, Recycling, Reduction in Crime, Staff Absence through Sickness and Improvements in Special Educational Needs. Areas that needed to improve of included Street Cleansing, Waiting for School Places, Re-registrations on the Child Protection Register and Library Visits and Active Borrowers. With regard to the Local Area Agreement (LAA) stretch targets, Cathy Tyson reported that Domestic Violence was now considered a low risk due to the success of the project, however there were difficulties being experienced in recruiting a new Domestic

Violence Coordinator and in obtaining data to measure ineffective cases from the Crown Prosecution Service, although it was still expected to meet its final year targets in 2009. Members heard that Smoking Cessation, which had been one of the biggest concerns, had since received significant investment and it was possible that up to 60% of the reward grant could be attained. With regard to Sports Participation, although there had been a large improvement in facilities, this area was assessed by questionnaires which had seen no increase in participation and measures were being considered to boost performance in this area. Street Cleansing also remained a risk although discussion with the contractors would lead to a change in operating methodology and there was good reason to believe that the annual and final targets for 2009 would be met. Cathy Tyson also advised that Reducing Benefit Processing Times had performed well, however a recent random audit had identified a few discrepancies of between 1 to 2 days of the reported figures. Revenue and Benefits were conducting a full audit of performance in the first 2 quarters to address this.

Cathy Tyson advised that the Comprehensive Performance Assessment (CPA) February 2009 refresh score was on course to achieve a 3 star rating, despite improvements, however the methodology used to assess library and museum visits still hindered performance and the Council continued to lobby the Audit Commission for assessment to be revised in this area. Some LAA targets may also be affected by the downturn in the economy, such as those relating to housing and employment and negotiations with the Government were ongoing with regard to such areas being re-assessed. Cathy Tyson advised that the Council was now focusing on the Comprehensive Area Assessment that was to replace the CPA in 2009 and she emphasised the role the Select Committee would play in scrutinising the work of the Council and its partners on this.

Councillor H B Patel enquired whether participants should be charged for the Council's organised physical events such as the Healthy Walking Programme and commented that events such as the Weekly Walk should continue. In reply, Cathy Tyson advised that every effort was being made to encourage physical exercise as part of residents' daily routine and that this issue continued to be carefully considered.

Duncan McLeod then presented the Finance aspect of the report, advising that an overspend of £1.993m was forecast for 2008/09 budgets. Most service areas were forecast to overspend in Quarter 1 with Housing and Community Care the biggest concern and every effort would need to be made to ensure the successful delivery of the Transformation Programme in Adult Social Care to offset other pressures, including the inflationary impact upon homecare and residential placements. Environment and Culture's overspend could partly be attributed to additional recycling costs, particularly as more plastic material was being collected. Children and Families overspend had improved due to the £400,000 received from grant funding for unaccompanied asylum seeking children. Duncan McLeod advised that overall Quarter 2 had seen an improvement in the financial situation.

Councillor Pagnamenta enquired whether falling commodity prices would impact upon revenue raised through recycling. Councillor H B Patel sought further clarification with regard to the extent of the forecast overspend for 2008/09 and what impact the deposits in the two Icelandic banks would have. The Chair enquired whether the recent Baby P case involving Haringey Council would impact upon budget issues for Children and Families.

In reply, Duncan McLeod advised that falling commodity prices were not affecting recycling revenue at present and not much income was raised from this area in any case, although the effect on revenue raised through selling abandoned vehicles may be greater. Members heard that as of the end of September, an overspend of just under £2 million was forecast, although subsequent forecasts could indicate the Council getting close to breaking even. With regard to the Icelandic bank deposits, the reduction in interest rates from other deposits was a greater concern, although this would be partly offset by reduced interest on money owed by the Council. In addition, the Council was not likely to receive the land charge income anticipated and this gap would need to be bridged. As a result of the Baby P case, Duncan McLeod advised that Children and Families needed to do additional work and one off funding had been provided to undertake this. There was likely to be the need to provide additional funding in the 2009/10 budget to implement changes in this area.

11. Performance and Finance Select Committee Work Programme

Members noted the topics for consideration on the Work Programme for the next meeting, which included the Asset Management Task Group Report 4 and the IMD report, with other topics possibly being added before the meeting.

12. Items Requested onto the Overview and Scrutiny Agenda

None.

13. Recommendations from the Executive to be considered by the Performance and Finance Select Committee

None.

14. Date of Next Meeting

It was noted that the next meeting was scheduled for Tuesday, 17th February 2009 at 7.30 pm.

15. **Any Other Urgent Business**

None.

The meeting ended at 9.50 pm

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Chair