MINUTES OF THE BUDGET PANEL
Thursday 23 October at 7.30 pm

PRESENT: Councillor Mendoza (Chair), Councillor V Brown (Vice Chair) and Councillors Cummins, Butt, Gupta and John.

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

None.

2. **Minutes of the Previous Meeting – 2 October 2008**

RESOLVED:

that the minutes of the meeting held on 2 October 2008 be approved as an accurate record.

3. **Matters Arising**

None.

4. **Icelandic Banks Situation – Verbal Update**

Duncan McLeod (Director of Finance and Corporate Resources) briefed the Panel and answered questions from members on the situation surrounding the Council's deposits of £15m in two Icelandic banks. This issue, together with emerging and potential budget issues, would be the subject of a report to be considered at the meeting of Council on 27 October 2008. There would also be a report to the 4 November 2008 meeting of the Performance and Finance Scrutiny Select Committee. Duncan McLeod reported that the Council had two deposits outstanding, £10m with Heritable Bank, and £5m with Glitnir. Both banks were now in administration. Heritable was largely a UK bank and its UK assets were being administered by Ernst & Young. Contact had been made with Ernst & Young, and the Council was optimistic that the deposit would be repaid, although the situation was unlikely to become clear before November 2008. Glitnir was being administered by the Icelandic equivalent of the Financial Services Authority (FSA), but despite discussions between the UK, Danish and Icelandic governments, there were as yet no indications on the repayment of the deposit. In the meantime, the International Monetary Fund (IMF) had announced a rescue package for Iceland.

Over 120 local authorities, as well as the Audit Commission, Transport for London (TfL), charities and other bodies also had deposits with Icelandic banks. Brent's Pension Fund had no deposits with Icelandic banks.

Duncan McLeod informed members that the Icelandic banks had had good credit ratings at the time the investments were made. The essence of

Treasury management was to strike a balance between maximising returns and prudent risk management, and the Council followed guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) and the government on this.

While the Council was optimistic about getting the deposits back, there was a concern to protect the interest that would have been due on the deposits. A claim would be made to the administrators for full interest, in addition to the deposits, as well as for potential future interest lost as a result of any delay of repayment. It would also be necessary to consider a worst case scenario. In terms of anticipating the worst – i.e. the banks' inability to repay the deposits – the Local Government Association and London Councils were already lobbying the government to issue a capitalisation direction to allow councils to spread any loss over an extended period, for example, five to seven years, or longer, if necessary. The LGA was in talks with the Audit Commission and Ernst & Young, and – with 25% of councils affected – there was pressure to come to a conclusion before Councils set their budgets. Duncan McLeod emphasised that the Council was an organisation with annual expenditure of almost £1bn and the potential losses, even in the worst case, would have no direct or immediate impact on Council services or staff.

Asked whether the Council had received any advice about the wisdom of maintaining deposits in the Icelandic banks, Martin Spriggs, Head of Exchequer and Investment, informed members that the Council had been aware of problems in the Icelandic economy, and of the fact that the credit rating agencies had had concerns in spring 2008. However, the agencies had not altered the banks' credit ratings. Moreover, the Council's own consultants had met with representatives of one of the banks in August to satisfy themselves that the investments were safe, and at the time they were content with the information they had been given. Duncan McLeod reported to members that, while it had emerged later that the FSA had indeed expressed some concerns about the Icelandic banks, the Council had not been aware of this at the time. The Council was not complacent about this, and would learn lessons from the situation. It regretted the lack of information flow on this from central to local government.

After a discussion on the possibility of offering members more of an opportunity to scrutinise such investments by the Council, members agreed to recommend that the next meeting of the Audit Committee consider how best to do this.

Discussing the Council's proposal to commission an independent review on the adequacy, application and effectiveness of its investment strategy and the associated internal control systems, members recommended that the Council await the outcome of the review being carried out by the LGA and Audit Commission before going ahead with its own review. Members also agreed that it would be appropriate for the outcome of the LGA/Audit Commission review to be considered by the Audit Committee.

RESOLVED:-

(i) that the briefing be noted;

(ii) to recommend that a report be submitted to the next Audit Committee meeting on how best to involve members in scrutinising the Council's investment process;

(iii) to recommend that the Council await the outcome of the LGA/Audit Commission review before commissioning its own review;

(iv) to recommend that the results of the LGA/Audit Commission review be considered by the Audit Committee at the earliest opportunity.

5. **Schools Capital Programme**

Peter Stachniewski (Deputy Director of Finance and Corporate Resources) introduced the report, which set out an initial proposed new approach to enabling the Council to ensure the most effective use of resources available for capital spending on schools. The proposal involved developing the Schools Capital Programme over a 10-year – as opposed to a four-year – period, as well as separating out major elements of the programme such as the Primary Capital Programme and Building Schools for the Future, and combining resources available to schools with mainstream Council resources and developer contributions. Peter Stachnewski reported that an initial discussion on the approach had been held at the Schools Forum with head teachers and governors, who had said they wanted to see more details about the proposal. A more detailed proposal would also be brought to the Budget Panel for consideration at a future date.

During discussion of the proposed new approach, Peter Stachniewski emphasised that it would enable the Council and schools to work in partnership to make collective improvements, and that knowing needs in advance would provide opportunities to use funds more strategically and wisely. Answering members' questions, Duncan McLeod reported that curriculum requirements and sports facilities would be considered during the process of developing new schools, as would the community use of such facilities.

RESOLVED:

that the report be noted.

6. Review of Progress on the Medium-Term Financial Strategy

Duncan McLeod (Director of Finance and Corporate Resources) introduced the report, which set out the need to review assumptions in the medium-term financial strategy in line with the steeper than expected deterioration of the economic and financial situation. While it was not proposed to change the underlying approach in the strategy, which was considered sound, the assumptions, as set out in the budget report to the Executive on 14 July 2008, needed to be adapted to economic conditions, Council priorities and projected resource levels. A further report, setting out the changes that needed to be made, would be submitted to the Panel at a later stage.

Answering questions from members, Duncan McLeod reported that, while the Council's improvement and efficiency strategy was a new and better way of monitoring and structuring matters and would be important for the 2010/11 budget, it was unlikely to have a significant impact on the 2009/10 budget. Any funding gap in the 2009/10 budget would therefore need to be managed by traditional means.

RESOLVED:

that the report be noted.

7. Fees and Charges Policy

Peter Stachniewski introduced the report, which set out a proposed new Council policy on the setting of fees and charges. The proposed policy would apply to fees and charges where the Council had discretion over the level of charges and services provided. The purpose of the policy was to specify the principles and processes of setting charges for services, to provide consistency across the Council in the implementation and collection of charges and to set a policy framework which supported the achievement of wider corporate objectives within the approach to optimising fee income. The policy was in line with the latest advice from the Audit Commission and CIPFA on best practice in setting fees and charges to maximise the benefits to servicer users, council tax payers and the wider community.

In answer to a member's question, Peter Stachniewski informed the Panel that the level of revenue income generated through charges in Brent was broadly in line with the national average of around 9%.

Peter Stachniewski drew members' attention to the proposal in the new policy to move away from the current situation, in which all charges and amendments to charges were put to members for approval as part of the budget-setting process, to a process whereby the setting of some charges would in future be delegated to officers. Asked about the categories of charges to be delegated to officers, Peter Stachniewski pointed out that these would be charges that raised relatively small amounts of income in absolute

terms or relative to the service of which they were a part, for example, some trading standards charges. It was envisaged that the new approval process would allow members to focus on those charges that were most important to the Council strategically, and that the process itself would be consistent, flexible, policy-driven and linked to the budget.

RESOLVED:

that the report be noted, together with the fact that, in order for the setting of some fees and charges to be delegated to officers, a change to the Council's Constitution would be required.

8. **Date of Next Meeting**

The date of the next meeting was scheduled for Thursday 13 November 2008. Members agreed that the meeting should start at 6.30 instead of 7.30 pm, in order to allow the maximum number of members to attend.

9. **Any Other Urgent Business**

None.

The meeting ended at 9.20 pm.

A MENDOZA
Chair