MINUTES OF THE BUDGET PANEL
Monday 27 July 2009 at 7.30 pm

PRESENT: Councillor Mendoza (Chair) and Councillors Gupta and Jones (for Van Kalwala).

ALSO PRESENT: Councillor Dunwell.

Apologies for absence were received from Councillors V Brown, Butt, Cummins and Van Kalwala.

The Chair welcomed Mick Bowden (Deputy Director, Finance and Corporate Resources) to his first meeting of the Panel.

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

   None.

2. **Minutes of the Previous Meeting – 11 February 2009**

   RESOLVED:

   that the minutes of the meeting held on 11 February 2009 be approved as an accurate record.

3. **Matters Arising**

   None.

4. **Budget Strategy 2010/11 to 2013/14**

   Duncan McLeod (Director, Finance and Corporate Resources) presented the report and answered questions from members on the financial prospects for the Council for the following four years. The report had been agreed by the Council's Executive on 14 July 2009. Duncan McLeod informed the Panel that, within a difficult economic context, the Council was basing its budget approach on an improvement and efficiency strategy. This would seek to deliver the necessary efficiencies, while directing resources towards the Council's priority objectives and would necessarily require a change of emphasis from short-term planning to a genuine consideration of medium-term horizons. Duncan McLeod emphasised that the economic situation and recession were unprecedented and changing rapidly. Times ahead would be very difficult financially and would need to be dealt with differently from in the past. As was well known, the recession was having an impact on the Council's income with, for example, the effect of lower interest rates. As well as this, the demand for Council services was rising, with increases in the number of benefit claims, for example. It was also certain that there would be reductions in government grants over the four-year period, regardless of the outcome of the next general election. This was in a context of rising demands on services and limited ability to increase levels of council tax.

Duncan McLeod took members through an updated forecast of the position of the General Fund for the four-year period. The assumptions on which the forecast had been based were set out in the report and included, for example, 2.5% per annum for pay inflation (including national insurance increases) and 2% general price increases. The main resource assumption was that government formula grant would increase by 1.5% in 2010/11 in line with the three-year settlement for 2008/09 to 2010/11. After that, no increases in grant or council tax were assumed.

The overall reductions required to set a balanced budget in this context and with no council tax increase were set out in the report as follows: £14.1m in 2010/11, £13.1m in 2011/2012, £13m in 2012/13 and £13.5m in 2014/14. The cumulative saving at the end of the period would be £53.7m.

Duncan McLeod added that the capital programme was constrained in two ways. While demand continued to increase across a whole range of areas, the recession meant that it was difficult to sell assets at reasonable prices. As a result, the ability to fund expenditure depended on third parties or increased borrowing. There were particular issues around the Housing Revenue Account, on which the government had issued a consultation paper. This would be discussed at the next meeting of the Budget Panel.

Duncan McLeod informed the Panel that, while funding gaps had been addressed in the past, most of the options had been used, and a more radical planned approach was needed to meet the new challenges. He felt that across-the-board percentage savings targets were not necessarily effective, because they did not reflect each service’s ability to deliver savings. The report set out the Council’s Improvement and Efficiency Strategy and the main strands of indicative savings targets. These included £10m as a result of service transformation and reviews, £7.5m from better commissioning and contract management, £5m by stopping low priority activities and £5m after a review of structure and staffing. The strategy would be a four-year rolling programme, looking fundamentally at the way all services were delivered. It was important to be realistic and to take account of capacity issues, and it would not be possible to deliver simultaneously on every project. Members noted that the Panel would be considering work streams more closely at the next meeting.

Duncan McLeod drew members’ attention to Appendix B of the report, which set out the main stakeholders in the process and how the Council hoped to involve them, and Appendix C, which provided a draft outline timetable for the 2010/11 budget.

Asked about the feasibility of the four-year plan, Duncan McLeod pointed out that the current plan was more of a medium-term strategy than the Council had had in the past. In his view, the plan should be sustainable, both in theory and in practice, but further detailed plans were still needed in order to be fully confident of the plan. In answer to a question about the prospects for inflation, Duncan McLeod informed the Panel that it was difficult to come to a view. The conventional view was that increased money supply fuelled inflation and there was a possibility that in two years' time inflation might be higher than forecast in the report, but with no increase in government grants to local authorities.

In response to a question on the possibility of an increase in the employer's contribution to the Pension Fund, Duncan McLeod informed the Panel that the government had released a consultation document on this recently. He reported that, with poor stock market performance, it had become increasingly likely that an increase would be needed. However, performance in the last quarter had improved.

Asked whether the savings targets were in addition to those required by the Gershon Efficiency Review, Duncan McLeod confirmed that they were.

In answer to a question on the status of the Council's investments in two Icelandic banks, Duncan McLeod was pleased to be able to report that the Council hoped to get back all of its £5m investment with Glitnir Bank. In terms of the investment with Heritable Bank, the Council was assuming it would get back 80% of its £10m investment, and it would be receiving 15% the following day, plus some interest.

Answering a question about the administration of benefits, Duncan McLeod reported that the government had given local authorities a welcome extra grant to deal with the increased uptake. In theory the government funded 100% of benefit payments to residents, but in practice this assumed no inefficiency, overpayments or errors and the Council inevitably bore some costs, particularly in relation to fraudulent claims. Mick Bowden (Deputy Director, Finance and Corporate Resources) added that the amount paid out in housing and council tax had increased from £174m in the previous year to £215m in the current year. Duncan McLeod confirmed that the total loss to the Council in this area was around £500,000 in 2008/09.

In response to a suggestion that the Council reduce the cost of demand-led services by providing only those that where statutory, Duncan McLeod informed the Panel that the Council had had some success in controlling the cost of statutory services, and that one of the savings strands – stopping low priority activities – fell into this category.

Asked how much more commercially minded the Council was in a position to be than in the past, Duncan McLeod acknowledged that the Council had struggled with this in the past and that current market conditions did not make the task any easier. However, there was the potential to set up a company to provide services to a wider market. An example of this might be to provide payroll and/or payment services to other local authorities. While some services did sell their expertise, there were issues such as insurance liability and the need to maintain a large enough operation to make this worthwhile. The greatest potential seemed to be in carrying out work for other local authorities. The Council also aimed to keep its buildings open for longer and to make them multi-functional. For example, the new centre in Kingsbury would be a multi-function centre.

Members suggested that commercial sponsorship of, for example, public libraries and the Civic Centre, might be considered.

In answer to a suggestion on the need for robust discussion with partners on the budget situation, Duncan McLeod reported that the Council had been trying hard to do this, but that there were still problems getting information. There were many good examples of co-operation on projects, and performance reward grants did encourage this, but there was a long way to go before it could be said that there was a genuinely joined-up approach. He informed the Panel that in some parts of London the PCT and Council had effectively merged.

RESOLVED:

that the report and the comments above be noted.

5. **Update on the Budget Panel's recommendations**

Mick Bowden (Deputy Director, Finance and Corporate Resources) presented a report updating members on the progress of the Panel's recommendations in relation to the 2009/10 budget. members agreed to continue to monitor the progress of recommendations throughout the year.

RESOLVED:

(i) that the report be noted;

(ii) that the Panel continue to monitor the progress of its recommendations.

6. **Budget Panel's Work Programme**

The Chair drew the Panel's attention to a report providing a brief overview of the work of the Panel in 2008/09 and setting out the work programme for 2009/10. The Chair encouraged members to let him know of any further requests to include items on what was already a detailed work programme.

RESOLVED:

(i) that the report be noted;

(ii) that the 2009/10 work programme be agreed.

7. **Date of Next Meeting**

The next meeting, originally due to take place on Tuesday 15 September 2009, had now been scheduled for **Wednesday 23 September 2009**.

8. **Any Other Urgent Business**

None.

The meeting ended at 8.30 pm.

A MENDOZA

Chair