

Minutes

Overview and Scrutiny Committee

22nd July 2009



Councillors	Present	Councillors	Present
J. Baugh	Yes	A. M. Meyer	Yes
G. Cohen	Yes	R. Ramage	Yes
M. Dunn	Apologies	D. E. A. Rice	Yes
Dr. R. L. Evans	Apologies	A. F. Shelton	Apologies
M. Gage (Chairman)	Yes	Mrs. J. Smith	Yes
J. E. B. Gyford	Yes	F. Swallow	Yes

Cllr. M. Lager Cabinet Member for Efficiency and Resources, and Mr. T. Wilson Head of Finance were also in attendance.

13. DECLARATIONS OF INTEREST

Cllr. Baugh declared a personal interest in item 7 of the Agenda concerning the Scrutiny of the Municipal Waste Strategy for Essex as he is a member of Essex County Council.

14. MINUTES

DECISION: That the minutes of the meeting of the Overview and Scrutiny Committee held on 29th April 2009 be approved as a correct record and signed by the Chairman.

15. QUESTION TIME

INFORMATION: There were no questions asked or statements made.

16. SCRUTINY OF TREASURY MANAGEMENT – THE COUNCIL’S INVESTMENT IN THREE BANKS IN ICELAND

Cllr. Lager gave a brief introduction to this item and indicated that this subject was a very high profile one and that the Council took the matter extremely seriously. He indicated that he would deal with any policy issues that arose during the discussion, and Trevor Wilson the Head of Finance would take the Committee through the report and answer any matters of detail.

Trevor Wilson highlighted the main points of his report and supporting appendices.

He reminded Members that at their meeting on 29th October 2008 the Committee had agreed to examine, in six months time, the following:-

- * how the Council’s Treasury Management processes evolved;
- * what sources of advice were obtained;

- * what changes in policy are now being considered.

Trevor's report set out the details of the Council's investments totalling £5m that were at risk with Icelandic Banks (Kaupthing, Singer and Friedlander Ltd. £1m; Landsbanki Islands £3m; Glitnir £1m).

The action taken to date included the following:-

- * fresh Treasury Management Advisors - Arlingclose – had been appointed for a three year term from 10/11/08. Arlingclose also provide regular training events for their clients, and relevant officers involved with the treasury function had attended a number of such events. Arlingclose would also be providing an evening training event for Members on 15th October 2009;
- * the Council's lending policy had been reviewed and tightened;
- * all the Council's investments (apart from those with the Icelandic Banks) now met the top Tier 1 criteria.

The latest information from the Local Government Association, which is acting on behalf of the local authorities affected, indicates that the likely level of repayment of the investments placed with the Icelandic Banks is:

- * Kaupthing Singer and Friedlander - 50% - payable in instalments between July 2009 and October 2012;
- * Landsbanki – 83% - payable in instalments between March 2010 and December 2012;
- * Glitnir – 100% - payable March 2010.

It was anticipated that the Council would recover approximately 78% of principal together with a further £149,920 of interest. This would leave a loss on the Council's investment of approximately £600,000.

A snapshot of the position as at 3/7/09, showed that the Council's investment portfolio totalled £53.69m (including the £5m invested with the Icelandic Banks).

Trevor reported that the Council's Audit Committee had considered the findings from the Audit Commission's report 'Risk and Return – English Authorities and the Icelandic Banks' published on 26th March 2009, and had adopted the recommendations contained therein to enhance and improve the Council's Treasury Management role. The Audit Committee is also to consider at its next meeting the report of the Communities and Local Government Committee into local authority investments.

In respect of the Council's future investment strategy, including the use of bonds issued by Multilateral Development Banks, Cllr. Lager had requested a review of the Council's options for managing funds from the Corporate Director and Head of Finance. This will feed into the annual review and update of the Treasury Management Strategy and the budgetary process for 2010/11.

There then followed a question and answer session.

Question by Cllr. J. Gyford

What is the range of fluctuation in the Council's Investment Portfolio over the course of the financial year?

Answer by Trevor Wilson

It tends to peak at approximately £56m in September and will fall to approximately £28/£29m by the end of the financial year. In managing the Investment Portfolio we have to factor in a number of issues - the repayment of monies that we have borrowed; the spending of capital receipts in connection with the capital programme; the degree to which balances will be utilised; spending of developer contributions from Section 106 Agreements; the Council's cash flow (out of the Council Tax payments received the majority is paid over to Essex County Council) which is estimated from past years figures - the Council's cash flow does take account of revenue expenditure (which tends to be relatively even given that the main item is salaries) and grants from central government etc.

After taking into account the various fluctuations, £32m to £33m is the mean figure that we have available to support both capital and revenue expenditure.

Question by Cllr. Mrs. J. Smith

There has been some brief coverage in the press that the Icelandic Banks are having a meeting and that there is a possibility that they will renege on the repayment agreements. Have you heard anything?

Answer by Trevor Wilson

No – I have not heard anything to that effect. I will make some enquiries with the LGA.

Question by Cllr. J. Baugh

Have the public had an adequate explanation in terms that they can understand, of how things went wrong?

Answer by Cllr. Lager

This is one of the many things that can happen during the lifetime of the Council, but this particular episode is a serious matter. We have been very open and transparent about events, the history and the Council's reaction and about what happens in the future. Members have been kept fully informed. Any questions that have been raised have been answered completely and openly. We have had a number of reports and there have been discussions at Council meetings. I have been careful to make statements to full Council about the likely recoveries, which I did at the last meeting, and I think the press have picked up on some of those. There is a limit to the extent to which we can write to everybody about these events. It is up to the press and the media generally, to pick up on matters that they feel should be drawn to the attention of the public.

Question by Cllr. A. Meyer

In relation to the monies invested with the Co-operative Bank and the Clydesdale Bank, what is the deciding factor in determining how much to invest respectively in two

individual banks such as these which both have a Tier 1 rating, but where the interest rates offered are different?

Answer by Trevor Wilson

In considering investments, we take into account what our spending pattern will be so we know when we will need that money. If we need the money in 2 to 3 days time, we will invariably invest it with our bankers the Co-operative Bank, because we do not have to transfer the money out and incur costs. We have a limit on how long we can invest with them – this is up to a week. If we do not need the money for, say, up to 3 months we will look to put the money out for that period of time. We go to our brokers who will advise us as to where to place the money, and in this instance they recommended the Clydesdale Bank who at that time either offered the most competitive interest rate or were the only ones in the market place with the appropriate rating that we could deal with.

Question by Cllr. A. Meyer

As an authority, how dependent are we on earning interest to deliver services?

Answer by Trevor Wilson

We do make an assessment in the budget setting process as to how much monies are likely to be available to invest and also the likely level of interest rates to derive an estimate of interest earned for the year. It would be up to the Council to decide if it wanted to put monies in the UK Debt Management Office which, whilst being a 100% safe haven, would not earn much interest. We have taken a balanced view in that we have institutions that we are reasonably happy with, that have the UK Government credit guarantee. At the moment, the interest that we are earning averages 1.5% so we are a little below our budgeted figure, but we do have a reserve that we can call on that was set up in previous years.

Supplementary answer by Cllr. M. Lager

We are not dependant on interest in the sense that services will not be delivered if we do not earn interest. There are enough funds in reserves to see us through this year as has been explained. In previous years, we earned more interest than what we put in the budget and the excess was placed in one of our earmarked reserves. If the situation reverses, as it has, then we can utilise that reserve at least to see us through the current year. There is no question of services being jeopardised because we anticipated that interest rates would be higher than they actually are. The situation will be more difficult next year, because you cannot spend reserves more than once and the reliance that we have on interest will need to be made up in some other way. That is one of the reasons that I have asked for the Council to look at alternative ways to placing these relatively long term funds in order to attract a better return - for example, in property, or mortgage lending.

Question by Cllr. A. Meyer

We say that we are investing in UK Banks because they are backed up by the Government. Abbey and Alliance and Leicester are Spanish – are they covered by the UK Government guarantee?

Answer by Trevor Wilson

Yes – they are fully covered. *(Sine the meeting, Trevor has sought further clarification and in fact only the Abbey is covered by the UK Government guarantee. The sum placed on fixed term deposit with the Alliance and Leicester matures on 31/10/10, and there will be no new deposits with that bank).*

Question By Cllr. D. Rice

Is the level of investments and balances that we maintain, examined by the Government in the context of determining what level of government grant we should receive?

Answer by Cllr. M. C. M. Lager

You have to look at the composition of balances and where they have originated - you cannot just go out and spend them. In most cases they are earmarked. There is a general balance for which we have set a minimum level of 10% of revenue expenditure – £1.75m – although we are actually over that. That is a sort of free reserve and that is the only one that cushions us – it is more of a contingency against unexpected spending. Most of the rest is held for particular purposes. Although there are a number of balances and reserves, they are not all immediately available to spend. Some of them originate from the disposal of previous capital assets. I will ask Trevor to comment further on whether the Government look at those investments and balances as one of the factors in deciding the level of grant.

Supplementary answer by Trevor Wilson

The Government do not currently look at the Council's investments and balances in determining the level of grant. The Council determines whether or not the monies will be invested. We do have £17.8m from the sale of the Council's housing stock and it is a political decision as to how those monies are spent. The monies have been built up particularly since November 2007 because of that capital receipt. At the moment, the decision has been that we will utilise that money to earn interest to support the revenue account, but it is perfectly in order to look at other ways of utilising that money. As was indicated earlier, Cllr. Lager has called for a report as to how we could make better returns on that money e.g. purchase of land and property. It would mean that the interest currently earned from that money would not be available to the revenue account. As current interest rates are very low compared to recent years, there would be less of an impact in making savings or generating income elsewhere to meet the shortfall.

Question by Cllr. G. Cohen

Is there any process in place where the lending criteria structured around Tiers 1 and 2 might be relaxed?

Answer by Trevor Wilson

Tier 1 is being applied at the present time as that is the advice we have received from Arlingclose. We would need to come back to members if it was felt that the stresses and uncertainties in the economy had significantly reduced such that Tier 2 institutions would be utilised again. The situation with regard to the financial markets is kept under close review by Arlingclose and they will advise the Council as appropriate.

DECISION

Following discussion, the Committee agreed as follows:-

(1) a report updating the position on Treasury Management should be submitted to the Committee in a year's time;

(2) a suggestion be made to the Chief Executive that articles should be included in the Council's Contact Magazine and the Council Page in the local newspaper, giving members of the public an update on the Council's investment in Icelandic Banks and focussing on the monies that the Council hoped to get back.

The Chairman thanked Cllr. Lager and Trevor Wilson for attending the meeting and for giving full and frank answers to Members questions.

17. SCOPING REPORT – WORK PROGRAMME ITEM – SECTION 106 AGREEMENTS – STUDY INTO THE WAY IN WHICH CONTRIBUTIONS FROM SECTION 106 AGREEMENTS ARE MANAGED BY THE COUNCIL

Steve Bore, Scrutiny Manager presented the scoping report for this study setting out some brief background, the suggested terms of reference, the internal and external contacts, and the tentative timetable.

The Committee discussed the arrangements for taking this study forward.

DECISION

(i) that the scope of the study as set out in paragraph 2 of the Officer's report be approved;

(ii) that the Chairman and Vice Chairman liaise with the Scrutiny Manager in between meetings to deal with any issues/queries that need to be actioned.

18. WORK PROGRAMME ITEM – STUDY INTO WHETHER THERE IS ADEQUATE PROVISION OF PUBLIC TOILETS IN THE DISTRICT

Steve Bore, Scrutiny Manager presented this report setting out the further information that the Committee had requested at its last meeting concerning:-

1. The location of the Council's public toilets;
2. Times of opening;
3. Why they are located where they are;
4. In planning the provision of public toilets, to ascertain what account is taken of population growth;
5. Whether there is any benchmarking information available on the provision of public toilets.

The information provided by the Scrutiny Manager was noted and members discussed how best to take this study forward.

DECISION

It was agreed that the Scrutiny Manager should undertake a benchmarking exercise with

our “basket” of similar authorities, and also seek examples of good practice in dealing with toilet provision including further details of the ‘Community Toilet Scheme’ (originally devised by the London Borough of Richmond) and ‘pay’ toilets. The Officer to submit a further report to the Committee setting out the results of the exercise in due course.

19. OVERARCHING WORK PLAN FOR 2009/10

The Committee considered the draft work plan showing the expected timeline for the various projects included in this year’s work programme.

The Scrutiny Manager advised the Committee that the Scrutiny Hearing for the Pavement Parking Study had been set for Thursday 1st October 2009 at 7.15pm at Causeway House, and that in relation to New Scrutiny Legislation he would be reporting to the September meeting on the scrutiny of crime and disorder matters, and the Councillor Call for Action.

DECISION: that the Draft Work Plan for 2009/10 be approved.

20. SCRUTINY OF THE MUNICIPAL WASTE STRATEGY FOR ESSEX – FEEDBACK FROM THE MEMBER VISIT TO THE SHANKS MECHANICAL BIOLOGICAL TREATMENT PLANT AT FROG ISLAND, RAINHAM ON MONDAY 20TH JULY 2009

Individual members gave their feedback on this visit.

Overall, Members felt that the visit had been a worthwhile and interesting one, and that if other Members of the Council had the opportunity to visit the Rainham plant or another MBT facility they should do so.

It was agreed that the Scrutiny Manager would contact one of the East London Authorities served by the Rainham plant concerning their experiences in using the facility.

Action Point: Steve Bore to follow up.

The Chairman drew members attention to the fact that following the presentation by County Council Officers at the meeting of the Committee on 28/1/09, concerning the Joint Waste Strategy for Essex, the Committee had agreed that an independent expert should be invited to talk to Members on the operation of Mechanical Biological Treatment Plants. It was intended that the expert would provide a critical assessment of the information the Committee had been given.

The Scrutiny Manager advised the Committee that although it had proved to be quite difficult to identify an expert who was willing to make a presentation, the Chartered Institute of Wastes Management had recently suggested that Paul Frith an independent consultant (Frith Waste Management) would be willing to provide a presentation. The fee for Mr. Frith’s services was £750.

The presentation would be open to all interested Members of the Council to attend.

Following discussion, it was agreed that:-

DECISION

(1) Mr. Paul Frith be invited to make a presentation to Members at a fee of £750 (*since the meeting a copy of Paul Frith's CV has been obtained and this is appended to these minutes*);

(2) The presentation to be open to all members of the Council to attend;

(3) The Scrutiny Manager be authorised to make the necessary arrangements with Mr. Frith, and to liaise with the Chairman as necessary to agree a specific date for the presentation.

Action Point: Scrutiny Manager to make arrangements.

21. TASK AND FINISH GROUPS

In the absence of Cllr. Shelton the Chairman of the Bus and Rail Services Task and Finish Group, Cllr. F. Swallow gave a verbal update and advised that the Group was now in the final stages of its study and was making its draft recommendations. It was anticipated that the Group's study would be submitted to Cabinet in September/October.

DECISION

That the verbal report be noted.

22. FORWARD PLAN – 1ST AUGUST TO 31ST NOVEMBER

Members received the four month Forward Plan for the above period.

DECISION

That the contents of the Forward Plan be received and noted.

The meeting closed at 9.20pm

Immediately following the meeting, members of the Committee met informally in their respective budget sub-groups (Group 1 to examine each Portfolio holder's budget costs) (Group 2 to examine the criteria against which the Overview and Scrutiny Committee would operate in terms of carrying out its scrutiny of the Council's budget) to agree the way forward.

M. Gage
Chairman