BUDGET PANEL

14 March 2011

Present:	Councillor Mortimer (Chair) Councillor Bell (Vice-Chair), Councillors Derbyshire, Greenslade, Martins, Poole and Watkin (for minute numbers BP50-10/11 to BP54-10/11)
Also present:	Councillor Wylie, Portfolio Holder for Finance (for minute numbers BP50-10/11 to BP 54-10/11)
Officers:	Head of Strategic Finance Scrutiny Officer Democratic Services Officer (RW)

BP47-10/11 APOLOGIES FOR ABSENCE

There were no apologies for absence.

BP48-10/11 DISCLOSURES OF INTEREST

There were no disclosures of interest.

BP49-10/11 MINUTES

The minutes of the meeting held on 11th January 2010 were agreed and signed.

The Chair reminded the meeting that this would be the last Budget Panel meeting which the Scrutiny Officer would attend prior to his retirement. He thanked him for his excellent work and for the reports he had provided for each of the Scrutiny committees. He advised that this had been of great benefit to Members.

The Chair then noted that the three items on Value for Money would be deferred to the meeting on 22nd June 2011.

BP50-10/11 PROVISIONAL ACTUARIAL RE-EVALUATION OF WATFORD'S PENSION FUND

The Panel received a report of the Head of Strategic Finance. He explained that the report comprised two parts: the triennial review carried out by actuaries at Hertfordshire County Council (HCC) and Lord Hutton's final report on pensions. He advised that the Local Authority pension fund environment was currently just sustainable and that the Lord Hutton report offered recommendations to ensure a greater degree of solvency.

Hertfordshire County Council Pension Fund:
The Head of Strategic Finance advised that the fund comprised independent cost centres with income and expenditure accounts for each area. For example there was a cost centre for Watford Borough Council and another one for the Watford Housing Trust. They were independent entities that made individual decisions on their employment practices/contributions into their pensions fund and that this affected the solvency of each area.

The Head of Strategic Finance explained that the pension fund was financed by those employees who had opted to belong to the fund and also by their employers. He reported that employees paid a part of their gross pay into the scheme, the amount depending on their income: currently between 5.5% and 7.5%, and noted that Watford Borough Council had paid a contribution averaging 16.9% of salary for each active contributor to the fund. He added that the ultimate pension was based on final salary and that the maximum pension would be half of final pay if the employee had contributed for 40 years into the fund (if they had contributed for a lesser period then the pension would be proportionately lower).

In reply to a question from an Member, the Head of Strategic Finance advised that Watford's pension fund was a 'sub pot' of the total amount in the HCC Pension Fund account.

The Head of Strategic Finance then explained that in the past, problems had arisen through restructuring of staffing. Typically, enhancements and 'added years' had been awarded to staff surplus to requirements and this had put a strain on the pension fund as the costs were not funded at the time but just carried as a liability within the Pension Fund. He added that these costs were known as 'past service deficiencies' and needed to be recovered from existing budgets as an oncost/ overhead on gross pay. They were also comparatively high at Watford Borough Council (WBC) as compared to other Hertfordshire authorities.

Watford Pension Draft Results:
The Head of Strategic Finance advised that the Watford pension fund had deteriorated over the previous three years with a current deficit of £42 m. equating to 66% funding whilst three years ago funding had been at a level of 78%. Reasons for this were:

1. Investment Performance contributed as the major cause of the deficit as the value of investments was considerably lower in the current economic climate than it had been three years previously. The Head of Strategic Finance stressed that this was true not only for the Hertfordshire CC administered fund but for all local authority pension funds.
2. Life Expectancy had increased. Current figures indicated that men lived for 21 years and women for 24 years after retirement.
3. The number of staff members contributing to the pension fund was falling which impacted on the annual amount payable into the fund. Currently Watford Council paid £2.89m in 2009/2010 and £2.948m in 2010/2011 into the pension fund. Reasons for this included outsourcing of services and staff opting out of the scheme as they considered that the pension was no longer value for money. The Head

of Strategic Finance added that the ‘final salary’ calculation for pensions could change to a ‘career average’ calculation.

It was noted that in order to reflect a potential reduction in staff numbers, the HCC Actuary had proposed that a 15.9% contribution on gross pay plus a lump sum payment of £1.12 m should be applied to the following three year period. Based upon current staffing levels contributing to the pension fund, this would require a 26.2% oncost on top of gross pay. The Head of Strategic Finance reminded the Panel that the current oncost rate was 26.8% (16.9% for current contributors, and 9.9% to meet past service deficiencies) so there would not be an immediate budget problem. This needed to be closely monitored during 2011/2012. The Council did have a £1m earmarked reserve that could be used if the 26.8% oncost did not generate a large enough payment.

In reply to a Member’s question on opting out of pension scheme, the Head of Strategic Finance advised that where an employee had paid in for 20 years or more, the money would be frozen on existing pension rules and would maintain its value by the addition of an inflation factor. The Head of Strategic Finance advised that voluntary redundancies made sense so long as there was a financial payback within at least two years.

Looking to the future, the Head of Strategic Finance advised that the actuaries at HCC had not taken Lord Hutton’s recommendations into account. They had recommended that local authorities employ a stabilisation policy whereby current rates remain largely the same for the following three years and then, at the next triennial review, to potentially add an increase of 1% in 2014/2015 but no further.

This increase had already been included within Watford’s Medium Term Financial Strategy.

In reply to a question from a Member, the Head of Strategic Finance advised that WBC was locked into the HCC scheme with no option to leave. He said that he had asked for statistics on Local Authority pension funds investment performance and would circulate the figures to Members once they had arrived.

One Member noted the £1 million earmarked reserve and asked whether this was sufficient. The Head of Strategic Finance replied that this reserve could also be used for redundancy payments although part of this amount was already committed.

Members agreed that the recommendations of the actuaries should be accepted.

The Hutton Report:

The Head of Strategic Finance outlined recommendations in the Hutton report:

1. The Normal Pension Age be linked to the State Pension Age. This would mean that employees, currently able to leave at age 60, continue to work until 66/ 68 or leave earlier with a lower pension.
2. That career average pay be used to calculate pension entitlement rather than final pay as at present. It was not suggested that this move be retrospective, however, but staff would be able to ‘bank’ pension already accrued.

3. That employee contributions increase. The report suggested an increase of between 3% and 5%. Tax relief would be allowable on the first £50K of salary only .

In response to a comment from the Chair, the Head of Strategic Finance confirmed that pay in the public sector was currently 6% above that in the private sector. He expected, however, that the two year freeze would bring parity.

The Portfolio Holder advised that it was important to be mindful of the Council's obligations to pensioners and that there was a duty to encourage younger people to invest in pensions for their future.

RESOLVED -

1. that Budget Panel note the provisional results of the triennial revaluation of the Hertfordshire County Council and Watford Pensions Funds.

2. that Budget Panel endorse the response made by the Head of Strategic Finance that Watford will continue to levy an employers' contribution of 26.8% on top of gross pay for the next three years (this rate has applied since April 2009 and had no immediate budgetary implications). The yield from this on cost rate will need to be monitored throughout the three year period to ensure the total payment into the Pension Fund equates to the recommendations of the Actuaries.

BP51-10/11 **PLANNING AND TRANSPORT – VALUE FOR MONEY REPORT**

RESOLVED -

that this item be deferred until the June 2011 meeting.

BP51-10/11 **HARLOW VALUE FOR MONEY STUDY – LESSONS FOR WATFORD**

RESOLVED –

that this item be deferred until the June 2011 meeting.

BP52-10/11 **VALUE FOR MONEY STATUS REPORT**

RESOLVED –

that this item be deferred until the June 2011 meeting.

BP53-10/11 **FINANCE DIGEST JANUARY 2011 (MONTH 11)**

The Panel received a report of the Head of Strategic Finance who then explained relevant points within the report.

The Head of Strategic Finance advised that the Finance Digest had deteriorated in month 10 and reported on the major adverse variations in the month.

Development Control: He informed the meeting that the £80,000 reduction in fee income had only recently been reported. He suggested that it would be necessary to look at staffing levels to ensure that the department was not over-staffed.

Concessionary Fares: The Head of Strategic Finance reported that month 11 had deteriorated further and that the cost of journeys had increased by £197,000 compared to original estimates. He explained anomalies within the current system of government grants which did not recognise transport hubs such as Watford.

Benefits Service: Volumes of applications continued to increase and that it was essential that IT systems were able to cope with demand.

He advised that it was unlikely that there would be significant improvement in the year ahead (2011/2012) and that monitoring would need to be stringent in order to remain within budget.

The Panel then looked at the above variations in detail.

Development Control and Property Services:
The Portfolio Holder advised that more analysis was required on income in the area of Development Control. He noted, however, that it was difficult to manage cash flow when payments were irregular. He added that monitoring over a four year period would be sensible in order to quantify risks.

One Member advised that it would be wise to view the figures on an income/expenditure basis.

Another Member pointed out that Development Control and Property Services dealt largely with 'unknowns'. He added that risk management was not robust and consequently it was difficult to predict what would occur year-on-year.

The Portfolio Holder counselled that Development Control should have been examined more stringently and suggested weekly or monthly monitoring in the future.

The Head of Strategic Finance agreed that the situation with regard to Development Control should have emerged earlier. He noted, however, that the Council had been prompt at debt recovery where appropriate and advised that commercial rents debts, particularly in Charter Place, had fallen in recent months. He added that it would be necessary, during a period of short-term leases, due to Charter Place redevelopment, to determine how the effect of this would affect budgeted income.

The Portfolio Holder concluded by reminding the meeting that, despite the set-back over Development Control income, these variations had been a relatively small part of the gross budget. (The Panel has subsequently been advised that

Development Control has made vacancy savings of £105k to meet both the shortfall in income and reduced volumes of applications and reflects excellent proactive management).

Concessionary Fares:
The Head of Strategic Finance and the Portfolio Holder explained difficulties inherent in the scheme whereby concessionary fares were funded. It was noted that Watford had been at a disadvantage and had suffered further through the withdrawal of the Government grant.

Revenues and Benefits Service:
In reply to a question from a Member, the Head of Strategic Finance advised that regular meetings were held with the Head of Revenues and Benefits. He informed the Panel that WBC had taken on extra temporary staff and had had to change to another software system. This had resulted in a degree of pressure on staff although he assured the meeting that the situation was improving with a considerable reduction in problems. It was anticipated that the next report would be good.

The Head of Strategic Finance advised that Council Tax arrears were carried forward to the following year and then followed up. He said that the recovery process had not been up-to-date and that reminders were not sent out on time. He reminded Members, however, that a new regime had been set in place and that the situation was improving.

<u>Key Business Indicators</u>
The Panel discussed the Business Indicators.

Capital Programme Section 106: In reply to a query on the Section 106 underspend, the Head of Strategic Finance advised that results for month 11 showed a 70% under spend but explained that a number of major projects had distorted the figures. He noted that whilst concern had been expressed that a proportion of Section 106 money had not been used, this money was still available.

A Member suggested that Scrutiny Committee could investigate this issue in order to discover how Section 106 money was managed.

The Portfolio Holder advised that part of the money had been ring-fenced for Play and Open Space use.

One Member suggested that Section 106 funds be used for improvements other than 'green' spaces such as the façade of the Palace Theatre and other areas in the public realm.

The Portfolio Holder advised that Section 106 income had decreased in the preceding two years and advised that this income and how it was utilised should be monitored.

ICT: Members of the meeting noted that the ICT review had demonstrated a low level of user satisfaction. The Portfolio Holder advised that a harmonisation process for both WBC and Three Rivers Council had been proposed. He noted that under a new system, off-site working would be possible although this would entail problems with security.

RESOLVED –

that the review forecast be noted.

BP54 10/11 **END OF YEAR REVIEW**

The Panel received a report of the Partnerships and Performance Section Head.

The Scrutiny Officer gave a brief presentation on work which had been achieved throughout the year. This had included Service Prioritisation, which had dominated the work during the year, Value for Money and the Finance Digest. He asked whether the Panel wished to continue to work on these issues.

Members considered that it was imperative that Value for Money should be reviewed.

The Chair noted the input of the Budget Panel into Service Prioritisation and agreed that Value for Money should be included as a subject for review.

One Member advised that the Budget Panel had worked well and thanked the Head of Strategic Finance for the excellent reports provided. He said that these had lead to well informed discussions resulting in positive outcomes in the area of Service Prioritisation. He noted other successful outcomes including the lack of increase in car parking permits. He noted that Council Tax increases had been built into the tax year 2011/2012 which was a significant contribution to the Budget process.

Another Member said that it would be wise to look at base budgeting and the work on Corporate Services and Service Prioritisation. He asked whether this would be a possibility.

The Head of Strategic Finance advised that Service Prioritisation was at stage 1 in the process and noted that the Budget Panel had asked how extra saving could be addressed under stage 2. He said that savings had been made through outsourcing and that this could be continued. He added that refuse and recycling had not been scrutinised but were part of the base budget. He agreed that Value for Money should be examined and advised that whilst Corporate Service would be deleted, other services had not been affected.

The Chair thanked members of the Panel for their contributions, excellent interchange of opinions and interest in proceedings. In addition he noted the excellent attendance of Panel members and thanked the Head of Strategic Finance, the Scrutiny Officer and the Portfolio Holder for their input.

RESOLVED –

1. that Value for Money be the subject of a review
2. that base budgeting be reviewed

Chair
Budget Panel

The meeting started at 7.00 p.m.
and finished at 9.05 p.m.

24/3/11