

KENT COUNTY COUNCIL

CABINET SCRUTINY COMMITTEE

MINUTES of a meeting of the Cabinet Scrutiny Committee held in the Darent Room, Sessions House, County Hall, Maidstone on Wednesday, 22 October 2008.

PRESENT: Dr M R Eddy (Chairman), Mr D Smyth (Vice-Chairman), Ms S J Carey, Mr A R Chell, Mr B R Cope, Mr G Cowan, Mrs T Dean, Mr G A Horne MBE, Mr E E C Hotson, Mrs J Law, Mr M J Northey, Mr J E Scholes, Mr J D Simmonds, Mr R Truelove, Mr L Christie (Substitute for Mr C Hart), Mr M J Harrison (Substitute for Mrs S V Hohler) and Mrs P A V Stockell (Substitute for Mr R E King)

ALSO PRESENT: Mr A H T Bowles, Mr N J D Chard, Mr M C Dance and Mr R A Marsh

IN ATTENDANCE: Mr W Farmer (Community Liaison Manager), Ms C Lay (Area Education Officer Sevenoaks, Swanley, Tunbridge Wells, Cranbrook and Paddock Wood), Mr M Lemon (Head of Policy), Ms L McMullan (Director of Finance), Mr N Vickers (Head of Financial Services), Mr P Sass (Head of Democratic Services and Local Leadership) and Mrs A Taylor (Research Officer to Cabinet Scrutiny Committee)

UNRESTRICTED ITEMS

93. Declarations of Interest
(Item. A2)

Mr Christie declared a personal interest in the item on the Gravesham Neighbourhood Forum pilot, as a local Member

Mr Simmonds declared a personal interest in the item on the Sevenoaks Academy, because of his previous involvement in the establishment of academies.

94. Minutes - 24 September 2008
(Item. A3)

Following the sad and untimely passing of Mr John Law, the Chairman welcomed Mrs Jean Law to her first meeting of the Committee.

RESOLVED: That the minutes of the previous meeting held on 24 September were approved as a correct record.

95. Action Taken on Committee's Recommendations
(Item. A4)

Mrs Dean expressed her frustration that the Cabinet was still resolving to note this Committee's recommendations, instead of responding in a constructive way, which called into question the view of scrutiny within the authority. She added that, if the Cabinet merely noted this Committee's recommendations, it was not clear whether the Cabinet was in agreement, or not, or held some other view.

Mr Sass stated that the timetable meant that the Cabinet Scrutiny Committee agenda was despatched the day after the Cabinet met and it was often not possible to obtain cleared Cabinet Minutes in time for them to be included in the agenda papers and that the report referred to the fact that an oral update would be provided. Mrs Taylor stated that, with regard to the item of senior staff changes, Mr Gilroy had advised Cabinet that that he and his Chief Officer colleagues had been puzzled by the concerns raised by the Cabinet Scrutiny Committee (expressed at the September meeting). The changes that had taken place as a result of people deciding to leave and the interim management appointments that had been made ensured management continuity and had provided an opportunity to now reflect on the future managerial shape of the Council. All permanent appointments when made would go through the normal procedures for posts at this level.

In response to a question from Mrs Dean, Mr Sass undertook to obtain further details of how the proposed partnering arrangements between KCC and Worcestershire County Council would work in relation to the management of the highways service.

RESOLVED: That the report be noted.

96. Informal Member Group on Managing Motorways and Trunk Roads - 8 October 2008
(Item. A5)

The Chairman stated that the meeting of the IMG could have been avoided, had Members of this Committee been informed that the whole contractual basis had changed, in that it was now proposed that KCC would be a sub contractor, which meant that the financial risk involved was minimal. This major change to the proposed arrangements had removed most of the IMG's concerns about the proposals.

Mrs Dean stated that Mr Ferrin's comments in the IMG notes that the condition of A and B roads in Kent was above average when compared using the BVPI's across the country was not consistent with his comments at the Council meeting in October, when he said that KCC was not investing enough money to even begin to tackle the backlog of outstanding repairs. Mr Sass undertook to seek further comment from Mr Ferrin and the Highways service and report back to this Committee.

RESOLVED: That the notes of the IMG on Motorways and Trunk Roads be noted and the recommendations contained therein be approved.

97. Informal Member Group on Budgetary Issues - 9 October 2008
(Item. A6)

Referring to the recommendation of the Budget IMG that the Policy Overview Committees should be encouraged to consider setting up their own cross-party IMG's to consider the budget proposals, Mr Smyth stated that small groups of Members meeting informally is a very effective way of scrutinising the details, without the pressure on time caused by other agenda items. He stressed, though, that Policy Overview Committees would not be committed to this approach and he had no intention of denying the Committees a full debate on the budget at their November meetings.

Mr Harrison stated that the full Policy Overview Committees was a vital mechanism for involving and engaging backbench and opposition Members, which would be diminished if key issues such as the budget was only debated by a small group of Members. Other Members echoed this view. Mr Smyth stated that there was no attempt whatsoever to suppress the vital role played by the Policy Overview Committees and that it would be up to them how to deal with their consideration of the budget proposals.

RESOLVED: That the notes of the Informal Member Group on Budgetary Issues held on 9 October 2008 be noted and the recommendation to encourage the Policy Overview Committees to consider setting up their own IMG's for the consideration of the budget proposals be agreed.

98. Committee Business

The Chairman advised the Committee that, in relation to the item on treasury management, he had been advised that a representative of Butlers would now not be in attendance, as they had considered that their attendance would be more appropriate after the completion of the PWC report. He also stated that he had been contacted by Mr Sass shortly before the start of the Committee meeting to ask for his views on a request from Meridian Television to film during the Committee's consideration of the treasury management item. He confirmed that he had agreed to the filming.

A number of Members expressed the view that they would not have supported such a request on the grounds that the meeting was webcast in any event, the television companies had plenty of footage about the Icelandic situation that they could use already and that Members wanted to debate the issues constructively without the added factor of having television cameras on them.

Mr Sass advised that the Constitution gave power to the Chairman of a Committee to authorise recordings of Committee proceedings by a media organisation (Appendix 4 Part 2) and that he had only been made aware of the request at approximately 9.30am on the day of the meeting. He had spoken to the Chairman approximately 10 minutes later, who had given his consent to the recording. Mr Simmonds and Mrs Dean stated that, as spokespersons for the Committee, an attempt should have been made to contact them about the filming request before the meeting commenced.

99. An Academy for Sevenoaks: Determination of Site *(Item. C1)*

The Chairman welcomed Mr M C Dance, Cabinet Member for Operations, Resources and Skills (CFE) and Ms C Lay, Area Children's Services Officer (Sevenoaks & Tunbridge Wells), to the meeting.

The Chairman referred to the Briefing Note that had been circulated to Committee Members, as background information after the agenda had been despatched. This had been prepared for local Members at the very beginning of consideration of an academy for Sevenoaks.

In response to a question from Mr Smyth about the governance arrangements, Ms Lay explained that the Sevenoaks Academy was at a very early stage, in line with the four key stages set out in the Briefing Note. The Expression of Interest (EoI) a very first stage, had yet to gain ministerial approval. Should this be forthcoming, a Project Steering Group would be established, normally chaired by the lead sponsor and part of its task would be to establish the Academy Trust and agree governance arrangements. KCC would be represented on the Steering Group as co-sponsor. With regard to the governance arrangements for the academy itself, Ms Lay referred to the comment in the Briefing Note about the likely composition of the Academy Trust. Mr Dance stated that it was too early to say what the process would be to select and appoint the individuals who would form the Trust, which in turn would establish the Governing Body.

Mr Horne asked about the determination of the site and whether any detailed analysis had been done in relation to the cost of transporting children to the new academy. Ms Lay stated that the EoI had to include reference to the preferred site for the academy but that, subject to the approval of the EoI, the proposals would be subject to rigorous examination. In response to a further question from Mr Horne, Ms Lay stated that the capital cost of academies was provided by central government and revenue also came directly from central government, not via KCC. Effectively, academies were regarded as independent schools within the maintained sector.

The Chairman referred to the Briefing Note, stating that academies were usually located in areas of disadvantage and he questioned whether Sevenoaks was such an area. Mr Dance stated that there were pockets of deprivation in the Sevenoaks area that would rival deprivation levels anywhere else and he supported the provision of an academy in that area.

Mr Christie stated that an academy was a way of jumping the queue for BSF resources. He also expressed concern about the governance arrangements, with particular reference to the role of parent governors and the 2 head teachers of the schools that were proposed to be replaced by the academy.

Mrs Dean stated that, because Sevenoaks did not currently have a grammar school, a large number of children who passed the 11 plus had to travel outside Sevenoaks to attend other schools. She asked whether the academy would be a grammar school by another name and sought an assurance that there would be no selectivity for the new academy. Ms Lay confirmed that there would be no selection on the ground of ability for the proposed academy and that the intention would be to provide a school of choice in the town for children of all abilities. She added that she would provide information relating to challenge and deprivation in the Sevenoaks area outside the meeting.

RESOLVED: That (1) We would ask the Cabinet Member for Operations Resources and Skills (CFE) to report back to our Committee at the appropriate time to clarify the membership of the Academy Trust, particularly in relation to the inclusion of representatives of the two schools that are proposed to be replaced by the Academy;

(2) The Area Children's Services Officer (Sevenoaks & Tunbridge Wells) be asked to provide a guide to help our Committee's understanding of the academy process; further information for Committee Members on the levels of social deprivation in the

Sevenoaks area that justifies the submission of the Expression of Interest for an Academy in that area; and, information relating to the possible increase in travelling time/cost for students attending the Academy and the consequent impact on the environment; and

(3) We note the assurance of the Area Children's Services Officer (Sevenoaks & Tunbridge Wells) that places at the new Academy will not be determined on the basis of selection by ability.

100. Gravesham Neighbourhood Forum Pilots *(Item. D1)*

The Chairman welcomed Mr A H T Bowles, Lead Member and Mr W Farmer, Community Liaison Manager to the meeting.

Mr Christie began the discussion by stating that he had been involved in some of the negotiations about the pilot and that he welcomed the concept of neighbourhood forums. He questioned the governance arrangements, stating that it was difficult to ensure that the membership of the forums reflected the political balance of both the County Council and Gravesham Borough Council in each area. He added that he believed that the Urban Forums should be chaired by KCC in the first year because of their experience in running the local boards and he also remarked that the Parish Councils did not wish to take on the chairmanship of the rural forum in year one. Finally, he stated that the chairmen of the forums should be selected by the members of each relevant forum, not the respective group leaders.

Mr Bowles began by stating that those involved in negotiating the arrangements for the Gravesham pilots had sought to learn from the Dover experience and, in particular, to seek to add clarity to the issue of chairmanship, which wasn't made clear in the Dover pilot. He added, however, that it was important for the final decision on membership and chairmen to be made at a local level, which of course would be reviewed at the end of the pilot phase.

Mr Cowan echoed the comments of Mr Christie with regard to the chairmen being selected by the forum members, not the group leaders. Mr Bowles stated that the arrangements were agreed by Gravesham Borough Council. Mr Farmer stated that a report was made to the Cabinet at Gravesham Borough Council in July. Mr Christie stated that the position had changed after the report to the July Cabinet and asked for further clarification on how the changes had been made, which Mr Farmer undertook to provide outside the meeting.

Mrs Stockell stated that it shouldn't matter who the Chairman was, as a vote was not usually required.

Mr Harrison expressed his concern about the funding for localism in the County and asked for an assurance that appropriate resources will be provided as required, particularly for publicising the meetings. Mr Bowles stated that he welcomed Mr Harrison's support for localism being funded properly and the Leader of KCC had undertaken to provide appropriate resources. He also stated that arrangements were currently in hand to appoint additional staff for the localism team, to provide necessary support for the pilot phase.

Mrs Law asked whether the localism arrangements were seeking to address a government priority and a priority of KCC. Mr Bowles agreed.

RESOLVED: That (1) our Committee notes the development of joint neighbourhood forums for Gravesham for a one year pilot and wishes the individuals involved every success;

(2) the final timetable of meetings for the 3 forums be circulated to Members of our Committee as soon as it is available;

(3) our Committee was pleased to be advised that appropriate resources will be provided to meet the demands of the review of localism across Kent, which we regard as essential. In particular, we would ask that the Council's Communication and Media Centre provide greater publicity for local board/neighbourhood forum meetings; and

(4) our Committee wishes to receive a full report on the outcome of the various localism pilots taking place across the County in September 2009

101. Launch of Healthwatch (Item. E1)

The Chairman welcomed Mr R A Marsh, Cabinet Member for Public Health and Mr M Lemon, Head of Policy (Public Health), to the meeting.

The Chairman stated that this was the third occasion this matter had come to this Committee. He added that there had been a delay in launching Health Watch and asked what the reasons for the delay was?

Mr Marsh stated that the timetable for the launch of Health Watch had been driven by previous events and that it takes time to launch an innovative idea. He added that he had made the decision not to launch 22 September because he wanted to include adult and children's social services within the overall remit of Health Watch in order to provide a seamless signposting service for the people of Kent.

Mr Harrison stated that he was very impressed with the publicity for the service. He asked whether the budget for the service had included all of the relevant on costs, including those for the contact centre. He added that he was slightly concerned that there had only been 49 calls to the service and enquired as to whether this reflected the need for even more publicity.

Mr Marsh stated that the cost of the Health Watch service of approximately £300k equated to 1p per family per week, even though it was difficult to put a cost on a service that specializes in providing reassurance and advice. He added that, to date, there had been 61 calls to Health Watch in the first 10 days of operation. Mr Harrison stated that he agreed that the service would provide excellent value for money.

The Chairman stated that it would be useful to provide information to the Committee after an appropriate period of time about the number and nature of calls being made to the service. Mr Marsh stated that he would be more than happy to provide appropriate reports, which he suggested should be made each quarter, with a full report in December 2009, both to this Committee and the Health Overview and Scrutiny Committee.

Mrs Stockell stated that it was a responsibility of all Members to assist in publicising the service in their own areas, given the vital nature of the service being provided.

Mr Truelove stated that the extension of the service to social services was welcomed. He stressed that the data being collected must provide information about KCC's own services, so that appropriate changes could be made to service delivery if required.

In response to a question from Mr Horne, Mr Marsh stated that all calls were signposted to the appropriate professional person in each relevant organisation in the most simple and most efficient way. He also referred to the proposed publicity campaign that was due to start on 1 November.

In response to a further question from Mr Horne, Mr Marsh stated that the service would be provided for as long as it was considered to be appropriate. He added that everyone concerned should be delighted if there proved to be no need for the service if, for instance, there were no calls received at all in a 6 month period.

Mr Simmonds stated that he was concerned that the service could raise expectations of improvements to services that KCC alone could not deliver. Mr Marsh stated that KCC had worked very hard to ensure that the partnership was strong and that the PCT's were fully aware of where they needed to improve. Mr Lemon stated that operatives were made fully aware of the escalation process for each type of service being signposted by Health Watch.

Mrs Dean expressed her concern that the name of the service did not give the impression that it included social care services and wondered whether the public would have similar concerns. She added that she didn't believe that the PCT's had given the service a unanimous welcome. Finally, she stated that a Google search of health complaints did not result in a positive hit for Health Watch.

Mr Marsh stated that the publicity campaign being launched on 1 November would make it clear that the service was much wider than just primary health services. He added that the press had been surprised at the initial launch to see such solid support for the new service from the 2 PCT's and had not, in his opinion, reported the launch as positively as he would have hoped, concentrating on the rhetorical side of the questions they asked, rather than the positive answers from the Chief Executives of the 2 PCT's.

Mrs Stockell suggested that publicity material should be sent by e-mail to all Parish Councils in Kent.

Mr Truelove asked whether the response from acute services to the new Health Watch service was as positive as the PCT's. Mr Lemon stated that the acute services were all on board, evidenced by the fact that the launch took place at Maidstone hospital, as well as the Ambulance Trust and the Mental Health Trusts.

RESOLVED: That (1) Our Committee welcomes the launch of Health Watch and the potential benefits of the service to the people of Kent;

(2) Our Committee is pleased to note the addition of social care services to the remit of Health Watch;

(3) Our Committee was pleased to note the comments of the Cabinet Member for Public Health of his intention to submit quarterly progress reports to the Health Overview and Scrutiny Committee; and

(4) Our Committee asks for a full report in December 2009, which provides a full assessment of the number, nature and geographical origin of the calls made to Health Watch, to include information about how services have or will be shaped in the future to respond to common or regular concerns from those individuals contacting Health Watch. In addition, the report should include a full assessment of the value for money of the Health Watch service

102. Comprehensive Area Assessment (CAA) Consultation
(Item. F1)

The Chairman stated that both he and the spokespersons had now had sight of the proposed response to this consultation document.

103. South East Plan: Consultation on Secretary of State's Proposed Changes
(Item. F2)

The Chairman stated that both he and the spokespersons had now had sight of the proposed response to this consultation document and had asked to be copied into any further changes prior to the consultation deadline.

104. KCC's Treasury Management Policies
(Item. F3)

The Chairman welcomed Mr N J D Chard, Cabinet Member for Finance, Ms L McMullan, Director of Finance and Mr N Vickers, Head of Financial Management, to the meeting.

Mr Smyth began the debate by asking how decisions on investments were made within KCC. Specifically, he wanted to know more about the role of the Treasury Policy Group (TPG) in terms of deciding where to invest money. Ms McMullan stated that the overall framework for the management of local authority investments is contained within guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The overall strategy for investments is determined by the full Council each year and contained within the Medium Term Plan. Once the treasury strategy is approved, the Council uses a counter party list, which is based on the ratings provided to the authority on the various banks and other financial institutions. The Treasury Policy Group (TPG) meets on a quarterly basis to discuss the counter party list and decide where the Council should be investing its money and on what terms. Ms McMullan confirmed that officers had delegated authority to make investments, particularly as some investment decisions needed to be made quickly.

In response to a further question from Mr Smyth, Mr Chard stated that there was a clear structure to investments based on the ratings of the relevant institutions. He stressed that KCC does not get direct access to the information held by the 3 ratings agency; only the interpretation of this information by the Council's advisers, Butlers.

Mr Northey asked what the Council does when things go wrong. Specifically, he asked what the latest information was about the future of the Icelandic banks and what the likelihood was of KCC receiving a full refund of its invested money and over what timescale. Secondly, he asked what plans KCC had for the future to safeguard other investments if something else unexpected happened. Mr Chard stated that KCC had been very open and transparent about its investments from a very early stage, unlike some of the other 122 local authority investors in Iceland and that certainty was given about KCC's liquidity and continued ability to pay for its services, salaries, pensions and contractors. He also stated that the Governor of the Bank of England had been quoted in "The Times" to say that the an "extraordinary and unimaginable series of events" had led to the current situation and that "not since the 1st World War has our banking system been so close to collapse." He added that all new investments were being made with the Debt Management Office, which whilst completely safe, attracted a much lower rate of interest, which will have an impact on the County Council in terms of it being able to limit council tax increases.

Ms McMullan confirmed that KCC had some £18.35m invested in the Heritable Bank and she referred to the joint release by the LGA and the Administrator, which stated that the assets and liabilities of the Heritable Bank were about the same and that the next step was to set up a Working Party to begin the process of ensuring that investments were returned to local authorities as soon as possible. She stated that the LGA was leading on this work, supported by a small number of key local authorities including KCC and that good news was expected fairly swiftly. The remainder of KCC's Icelandic investments were with Glitner and Landsbanki, but that there was no further information at the moment about the timescale or process for the return of these investments.

Ms McMullan confirmed that a full review of KCC's remaining investments had been undertaken; this was particularly important given the fact that maturity dates for some investments would necessitate a decision on re-investment and as other money became available for investment. She stated that the use of the Debt Management Office was the only appropriate option at this stage, but that she did not consider that this was a sustainable position. She added that the cross-party Economic Management Group would have a key role to play in helping to decide on the future investment strategy and that a meeting request had gone out for 3 November.

Mr Northey asked for further information about how long KCC was likely to hold its investments with the Debt Management Office and whether anyone knew what the situation was with regard to the 2 Iceland banks. Mr Chard stated that he would prefer to leave the discussion on how long KCC was likely to use the Debt Management Office until after the meeting of the Economic Management Group on 3 November. Mr Chard added that the situation with regard to the 2 Icelandic banks was a difficult one, but when the Bank of Credit and Commerce International collapsed in 1991, some 90% of all investments were eventually returned to depositors.

Mr Christie asked when the TPG met prior to 9 October. Ms McMullan stated that the group last met at the end of July 2008, but that information was often shared electronically amongst the group members, particularly if urgent decisions had to be made. Mr Christie then referred to the article in the "Local Government Chronicle", which stated that local authorities had been warned some 7 months ago about the

potential risks of investing in Iceland. He also asked whether Mr Chard wanted to clarify the comment attributed to him that the government had asked KCC to make these investments. Finally, Mr Christie asked Mr Chard to provide further information about why KCC actually needed to invest the money in the first place, if there was no effect on services, salaries or pensions.

Mr Chard responded by saying that about one third of local authorities (123 out of 388) had investments or deposits with Icelandic banks totalling approximately £1bn. The figure of 123 was made up of approximately half of County Councils, one third of London Boroughs and one quarter of District Councils but did not include charities, universities, Transport for London and the Audit Commission. With regard to the comments attributed to him, Mr Chard stated that he had checked the tape of the interview he had done with Meridian and gave an assurance that at no time had he ever said or implied that the Government had asked KCC to deposit money with Icelandic banks. He stated that he had said that the Government expected local authorities to spread their risks and adhere to the CIPFA guidelines on investments, which KCC had done, with assistance from its advisers and the information from the ratings agencies.

With regard to the £50m invested, Mr Chard stated that this was working capital and reserves, which the Council was perfectly entitled to put on deposit, within the guidelines, in order to earn interest and help offset unnecessary increases in the levels of Council Tax. He added that KCC had received some £56m the previous day from its precept and £13m today in the form of Dedicated Schools Grant money, which did not need to be paid out either today or tomorrow, nor was it needed for immediate cash flow and so would be invested.

Mrs Dean expressed her disappointment that Butlers were not present but asked for further information about what their role actually was. Mr Simmonds interjected to say that such a discussion at this stage, prior to the consideration of the PWC report, was premature and could prejudice further discussions. He asked for legal advice about the nature of the line of questioning Mrs Dean was seeking to pursue. Mrs Dean stated that she was not seeking to examine the quality of the advice from Butlers, only their role. In doing so, she stated that she had searched a number of relevant websites recently, where Butlers had described their services as providing information not advice. She added that having clarity on the role of Butlers in KCC's investment decisions was crucial, given the fact that the Government had stated that they could not guarantee the deposits of local authorities because they were informed investors and received professional advice from companies like Butlers. Mr Wild advised the Committee that Mrs Dean's questions were appropriate at this stage, if all she was seeking to do was to clarify the role of companies such as Butlers. He added that it was appropriate for this Committee to look at the general picture first, not the specifics, in advance of the various investigations being undertaken elsewhere.

Ms McMullan read extracts from KCC's contract with Butlers, which stated that in terms of investment policy "advice would be given with regards to the implications of investing funds internally. In conjunction with our interest rate forecast, we will provide advice on the period of investment". On credit ratings, the contract stated that "where funds are invested externally, advice would incorporate an initial assessment and constant review of the credit rating and counter-party list selected by the Council. Monthly summaries of credit ratings will be supplied. Advice will also be provided immediately of any changes to these ratings".

Mrs Dean then asked what PWC had been asked to do in terms of their investigation and report: were PWC expressing an opinion on the Council's Treasury Management policies or giving an opinion as to whether KCC had abided by the rules on investments? Ms McMullan stated the PWC had been asked to look at this matter in two stages; firstly, whether KCC had followed existing processes and, secondly, how could those processes be improved for the future. She added that the PWC report had been commissioned as soon as possible after the Icelandic situation came to light.

Mrs Dean stated that she had received information that approximately half of the KCC money invested in Iceland did not mature until between February and August next year and she asked when Butlers first advised KCC that there was a potential problem with the Icelandic banks and what action was taken. Ms McMullan stated that the advice came through from Butlers on 30 September and at that stage, KCC was unable to get its money out. Mrs Dean stated that the credit ratings of banks and other financial institutions was information that was readily available, but what was more important was how the ratings were interpreted and what action was taken having considered those interpretations. She asked, therefore, when KCC was advised as to the reasons for the ratings on the Icelandic banks and why they had changed. Ms McMullan stated that the last meeting KCC held with Butlers was 29 September and she re-read one of the extracts from KCC's contract with Butlers with regard to their role in providing advice (referred to above).

Mr Harrison asked what KCC would do with the £50m if it was to be returned tomorrow. He also asked for further information on the membership of the Economic Management Group. Mr Chard stated that the only option for investment at the present time was the Debt Management Office, because it was safe but he reiterated his previous comment that the interest earned on that money would be very low, which would affect the Council's finances adversely. He added that the membership of the Economic Management Group would include the Members of the cross-party IMG on budgetary issues, the Chairman of the Superannuation Fund Committee (Mr Chell), the Chief Executive, Ms McMullan and himself. With regard to the proposed meeting on 3 November, the notification stated that, if those Members could not attend personally, substitutes would be accepted.

Mr Chell referred to recent Government legislation that had affected access to potential lower interest rates on borrowing, which meant that KCC would no longer be able to transfer or reschedule loans to preferential lower interest rates. He stated that this matter had been raised at the Audit Committee recently. He asked what this legislation would cost the tax payers of Kent. Mr Chard that the question from Mr Chell was outside the remit of the Icelandic situation and that he would provide a written answer in due course.

Mr Hotson asked what the political make up was of the 122 other local authorities that had Icelandic investments and also asked Mr Chard to comment on the benefits to Council taxpayers in Kent over, say, the last 10 years of the Council's approach to investments. Mr Chard stated that the make up of the 122 local authorities was right across the political spectrum and that, whilst the relevant details could be made available to Members, he stressed that he did not view the matter as a party political one.

Mr Truelove asked Mr Chard to confirm which Members of KCC were accountable in deciding that the money should be invested in Iceland. Mr Chard stated that all Members of the Council had a responsibility for the treasury management policies of the Council, but that beyond that, he was unwilling to comment further until the PWC report had been published.

Mr Scholes stated that, as Chairman of the Superannuation Fund Committee, he could reassure pensioners that the amount of money being paid into the pension fund exceeded the amount that had to be paid out, because of a decision in May 2007 to store cash rather than invest. He added that this had resulted in the accumulation of £16m in cash, which was now held in Iceland. He added that, by not investing £150m, the fund had made an additional £60m.

Mr Simmonds asked whether consideration would now be given in the future to country exposure and also what the net difference was between the Debt Management Office rates of interest and what could be achieved in the market and the effect of this on the Council Tax payer. Ms McMullan stated that country exposure would be one of the issues examined going forward. She also stated that, if all maturing and new money was invested in the Debt Management Office, the difference in interest rates would be between 60% and 70% less than the market. If KCC sustained that position moving forward, the estimated effect on KCC's finances would be in the region of £6m per year, which equated to just over 1% on the Council Tax.

Referring to the Local Government Chronicle, the Chairman stated that the rating of Landsbanki had been reassessed from "A" to "BBB" on 30 September. He asked what information had been available on the ratings for the other 2 Icelandic banks where KCC had investments. Ms McMullan stated that the PWC report would include a full chronology of events, including the dates on which ratings information was made available to KCC and the dates that investments in Iceland were made.

Mrs Dean referred to the suggestion from the Leader to the government of a new way of investing, which would involve local authorities placing all of their investments with British banks. She asked what discussions had taken place about that suggestion before it was made formally to the Government. Mrs Dean also asked for an explanation as to why the Superannuation Fund Committee had decided some time ago to retain cash rather than invest, when other parts of the Council had decided to retain investments. In response, Mr Vickers stated that it was the policy of the Superannuation Fund Committee not to hold cash but to be fully invested, either in equities, property or Government bonds. He added that the long standing policy was different to other parts of KCC because of the different nature of the liabilities. The decision in mid-2007 to hold cash was due to the expectations and predictions of other forms of investment, notably property. He reiterated that the decision to hold cash had resulted in additional income over that period of £60m.

With regard to the Leader's suggestion that local authority investments should be held in British banks, Mr Chard stated that he was not aware what discussions the Leader might or might not have had with other Members. He added that he was aware of the idea and that it merited further debate.

Mr Christie asked what information the TPG had available about the extent of the Icelandic liabilities when deciding to invest in Icelandic banks, adding that one

report had suggested the liabilities were 9 times the size of that country's GDP. Mr Chard stated that KCC's investment decisions were made in accordance with the treasury management policies and with the assistance of the Council's advisors.

The Chairman asked for confirmation of where the PWC report will go formally, once it is produced. Specifically, the Chairman asked whether the PWC report would be made public. Mr Chard stated that he would be very happy for the report to be made public, subject to the advice from the Council's Monitoring Officer on aspects of commercial confidentiality and any possible future litigation. Mr Scholes confirmed that he had already asked for the PWC report to be reported to the Superannuation Fund Committee.

Mrs Dean asked whether the Treasury Management Strategy was a public document and whether it would be discussed at the Economic Management Group, as she considered it to be a confusing document. Mr Chard stated that it would be discussed by the group and would also feature in the PWC report.

RESOLVED: That (1) Our Committee notes the ongoing preparation of the report by PWC into KCC's Treasury Management policies and asks that this report is made available for scrutiny by our Committee as soon as it is available;

(2) We ask that a copy of the contract between KCC and Butlers be provided to Members of the Committee on a confidential basis;

(3) We welcome the addition of Members of the Budget IMG to the membership of the Economic Management Group, set up and chaired by the Leader of the Council; and

(4) We expect Butlers to attend a meeting of our Committee at an appropriate stage in the future, following the completion of the PWC report.