



BACKGROUND REPORTS

Cabinet

Tuesday, 9 October 2012

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Lancaster City Museums Partnership
Lancaster City Council

**Final Report on
Recommendations
for Future Management**

ROBERT M AITKEN MUSEUM DESIGN
in association with
PRINCE + PEARCE *cultural project planning*

August 2012

Final Report on Recommendations for Future Management

**Prepared for
Lancaster City Council**

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August 2012

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1 Introduction: The Brief

Robert M Aitken Museum Design, in association with Prince + Pearce *cultural project planning*, was appointed in April 2012 to assist Lancaster City Council in the negotiation with Lancashire County Council of the existing Museum Partnership Agreement, due to expire in March 2013.

The main aim of the work was to provide an indication of how the current partnership could be improved in order to bring it more in line with modern thinking, attract more visitors and make a positive contribution to the cultural offer and economy of Lancaster District. The brief placed particular emphasis on maximising value for money for both the City and the County.

In summary, the work is aimed at improving the operation and long-term viability of the museums, including: (a) budget costs for proposed partnership arrangement, (b) budget costs for potential future income and running costs of the museums' operation, and (c) the potential 'fit' with management of additional museums within the Lancaster district and regionally.

Specifically the brief required the following actions and outcomes:

- ⑩ to review the existing contract and any supporting/background papers and information
- ⑩ to determine the breakdown of current spend against the annual management fee charged by the County to the City
- ⑩ to provide a range of options to enable an informed decision to be taken resulting in an improved arrangement between City and County Council's for the benefit of the district
- ⑩ to include within a range of options for any future operating agreement clearly defined financial implications
- ⑩ to include opportunities for links to a library service
- ⑩ to consider future governance arrangements, with an emphasis on local input
- ⑩ to recommend a 'joined up' approach when dealing with Arts Council England, including funding bids
- ⑩ to focus on value for money considerations – including increasing visitor numbers, and implementing efficiencies which may help to reduce costs
- ⑩ to produce a clear strategy for the future management of City, Maritime and Cottage Museums and within that, the relationship with the Judges' Lodgings and, eventually, the Castle
- ⑩ to develop clear, cohesive arrangements around programming and pricing
- ⑩ to understand the direct costs within current partnership agreement
- ⑩ to consider such issues as technology provision, financial management systems, procurement, inventories of equipment and tools, the use of subcontracts etc.

¹ Simon Kirby, Assistant Head, Community Engagement Service – Wellbeing, Lancaster City Council

The brief further required that the final report should contain proposals to improve the operation and long term viability of the museums and include:

- ⑩ budget costs for proposed partnership arrangement
- ⑩ budget costs for potential future income and running costs of museums operation
- ⑩ the potential 'fit' with management of additional museums within the Lancaster district and regionally.

The remainder of this report addresses these issues and makes firm recommendations for the future of Lancaster's museums, as defined under the existing Partnership Agreement with the County Council.

Primary fieldwork for this report was carried out in Lancaster between April and July 2012 and included workshops and interviews with all relevant, interested parties², for which, much thanks are due.

Preliminary workshops were also held in October and November 2011^{3,4}.

² A list appears as Appendix 2.

³ Lancaster City Council – Museum Partnership Workshop, The Globe Arena, Thursday 20 October 2011.

⁴ Aitken, Pearce and Prince (2011): Report of Transfer Workshop: 1 November 2011.

2 Existing Arrangements

Since 2003 the City has had a Partnership Agreement⁵ (essentially, a management contract) with Lancashire County Council whereby the latter manages the former's museums⁶ for an annual fee. Under this contract, the County provides technical (for example, conservation) and professional (for example, curatorial and design) support to the museums, whilst the City remains responsible for the ownership, and hence the long-term maintenance, of the museum buildings and the collections⁷. The existing management contract, on which notice was served by the City in 2010⁸, is currently being re-negotiated for a renewed end date of 31 March 2013⁹. Of note is that all the museum staff that were employed by the City prior to the 2003 Agreement coming into effect were transferred to the County under the provisions of the Agreement.

Lancaster City Museum is housed in the Grade II* Listed, 18th Century Old Town Hall in the Market Square. Opened as the town's museum and art gallery in 1923, it now comprises the City Museum and the King's Own Royal Regiment Museum. Traditionally, both have been regarded as one museum as far as development is concerned, but are, however, owned and managed separately. The building occupies an area of approximately 550 sq metres, excluding attic and basement storage. It is a valued resource for education, enquiry and investigation providing access to, and the interpretation of, important collections relating to the history and heritage of Lancaster and District from the Neolithic age to 1937, the year in which Lancaster achieved city status. Established in 1929, the King's Own Royal Regiment Museum occupies some 180 sq metres on the first floor of the rear wing. The regimental museum represents the army in Lancaster, a city with a strong military heritage.

In addition to the permanent exhibitions, the City Museum hosts an annual programme of temporary and special exhibitions in two ground floor galleries. The Museum is open six days a week (closing on Sundays) and has free admission for all. Lancashire County Council Museums Service maintains that the Museum attracts some 50,000 visitors a year, although this figure has not been independently verified. Both the City and the King's Own museums were Accredited in 2006 by The Museums, Libraries and Archives Council. This status is due for renewal in 2012. The potential future of this museum was the subject of a report by the current authors in July 2011¹⁰.

Lancaster Maritime Museum is situated in two buildings (the 18th century former Port of Lancaster Custom House and adjacent warehouse) on St George's Quay on the River Lune. Opened in 1985, the museum interprets Lancaster's considerable maritime (particularly trading) heritage, Morecambe Bay and the town of Morecambe itself. The museum is open seven days

⁵ The Museums Service Partnership Agreement

⁶ The City Museum, Maritime Museum and the Cottage Museum.

⁷ Save for the Regimental Museum which is in the ownership of a separate Trust.

⁸ Note of Lancaster City Council Cabinet meeting on 19 January 2010

⁹ This end date has been extended by twelve months from the original termination date of 31 March 2012 as set out by the Lancaster City Council Cabinet meeting of 19 January 2010

¹⁰ Aitken, Pearce and Prince (2011) Lancaster City Museum Study; July 2011. Report to Lancaster City Council.

a week (with seasonal variations in opening hours) and is free to local residents. It charges £3 (including VAT) to non-residents and £2 (including VAT) for concessions. Accompanied children enter free of charge.

The Cottage Museum lies within the Conservation Area on Castle Hill. Occupying five floors, this simple, 18th century cottage aims at giving an ‘intimate glimpse of early Victorian life’. Admission is £1 (including VAT) for adults and £0.75 (including VAT) for concessions. Accompanied children enter free of charge. The museum is open between 2 and 5 pm, seven days a week.

In addition to these three museums, Lancashire County Council manages – in Lancaster – the Castle as a visitor attraction¹¹, and the Judges’ Lodgings as a museum displaying period (Regency) rooms, particularly famous for their Gillow furniture and fine art, as well as a Museum of Childhood displaying toys and games from the 18th century to the present day. This Grade I Listed building (Lancaster’s oldest surviving town house) was the official residence of the Assize Court judges presiding in Lancaster Castle from 1776 to 1975.

The Partnership since 2003

- 1 It is clear that since the Partnership was entered into in 2003 many things have changed and continue to change, not least the way(s) in which the County¹² itself delivers its services across all the museums under its care¹³, compounded by the fact that both organisations are operating under the harshest financial environment since the 1930s¹⁴.
- 2 Over the years the County has, quite rightly and out of necessity, run the museums for the benefit of all, as part of its county-wide remit, and being mindful of the funds available to it. In effect, the County has had to make decisions regarding the future of the museums under its care. Some of these decisions may have benefitted the City directly, some may have not. Positive decisions on capital investment, for example, have historically been made by the County on buildings it owns rather than for the benefit of third-party owners, such as the City. This is entirely reasonable from the County’s standpoint, and it was – one could argue – up to the City to either (a) to invest in its own buildings or (b) made a sound case for the County so to do.

¹¹ By way of a lease from the Duchy of Lancaster.

¹² The County’s intent (as expressed by its Adult and Community Services Division) is that its “core purpose is to “ensure that Lancashire residents and visitors have opportunities for access to, participation in and employment within a wide range of high quality cultural experiences”.

¹³ The museums in Lancashire fall under Cultural Services, a £20 million-a-year department concerned with an array of service provision from museums to archives, public records and the library service, together with adult learning through three colleges. Source: Ian Watson (pers comm.) and *Service Level Business Plan 2011-12*, Lancashire County Council.

¹⁴ The National Institute of Economic and Social Research (NIESR), quoted by the BBC (2012). The world is now experiencing a global recession characterised by various systemic imbalances and sparked by the outbreak of the 2007-2012 global financial crisis, resulting in the failure and collapse of large financial institutions, the bailout of banks by national governments and severe downturns in stock markets around the world. It played, and continues to play, a significant role in the failure of businesses and the decline of consumer (individual) wealth. It is expected to continue for the foreseeable future and may reach unprecedented levels in the coming years, considering the problems experienced by the economies of Greece, Spain, Italy, Portugal and Ireland, together with the pressure on the Euro. All this has particular relevance to the UK, bearing in mind its large sovereign debt, now some £1.1 trillion, or 66% of GDP, and the measures the UK government may need to implement to restore financial normality.

- 3 Whatever the minutiae of the arrangements as they exist, it is clear that, at present, (a) the County provides services to the City, (b) the City pays for these services, (c) any future museum delivery in (and/or by) the City will need support from the County, and (d) that any future service delivered by the City will require – and should actively seek the support of – the County by way of a revised partnering arrangement, however the latter is couched. The way forward for the City’s museums must be seen against this background: both the City and the County must move forward together, albeit with a revised arrangement – but in the spirit of partnership and mutual benefit.
- 4 Since 2003 the City has had a Partnership Agreement (essentially, a management contract) with Lancashire County Council whereby the latter manages the former’s museums for an annual fee. Under this contract, the County provides technical (for example, conservation) and professional (for example, curatorial and design) support to the museums, whilst the City remains responsible for the ownership, and hence the long-term maintenance, of the museum buildings and the collections. The existing management contract, on which notice was served by the City in 2010, is currently being re-negotiated for a renewed end date of 31 March 2013.
- 5 It is clear that since the Partnership was entered into in 2003 many things have changed, not least the way(s) in which the County itself delivers its services across all the museums under its care, compounded by the fact that both organisations are operating under the harshest financial environment encountered since the 1930s.
- 6 Whatever the minutiae of the arrangements as they exist, it is clear that, at present, (a) the County provides services to the City, (b) the City pays for these services, (c) any future museum delivery in (and/or by) the City will need support from the County, and (d) that any future service delivered by the City will require – and should actively seek the support of – the County by way of a revised partnering arrangement, however the latter is couched.

Options for the Museum Service

7 . Six options for the future of the service are considered:

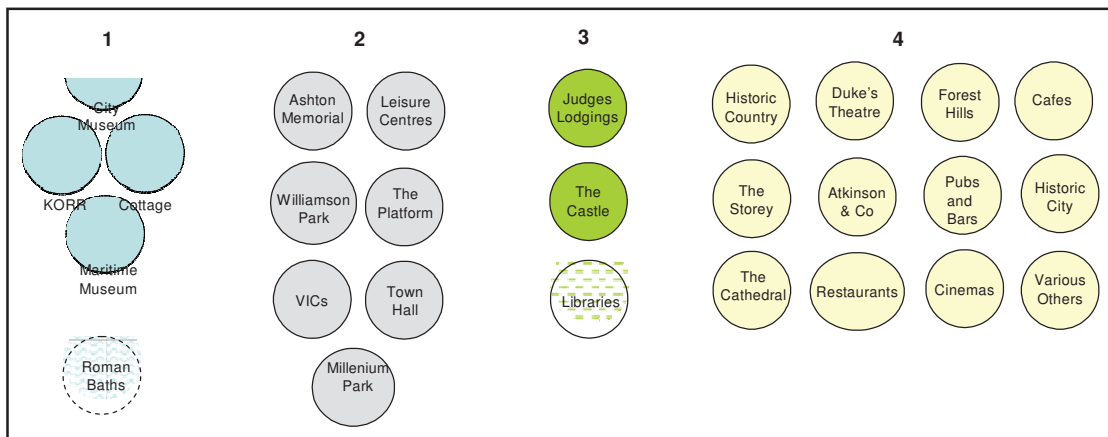
1	Close the museums
2	Transfer the Assets to the County
3	Offer to a Private Operator
4	Offer to an existing Trust or create a new Trust
5	Enhance the Status Quo
6	The City repatriates its museum service

8 Each option raises issues and associated risks, some of which may be easier to deal with than others – either financially or politically. On balance, Options 1 through 4 (which are essentially closure or disposal to the County or third parties) create significantly more problems than they present realistic, sustainable solutions. The choice would therefore appear to be between (a) Option 5 – enhancing the status quo and (b) Option 6 – repatriating the museums service to the City.

9 To start the process of deciding between the two remaining options (Option 5, enhancing the status quo or Option 6, repatriating the museum service), the City needs to think – precisely – what the museums *can* do and how they can make a positive contribution to the City, rather than simply looking at ways of saving money. At minimum, if the City is to repatriate its museums, it must be done in such a way as to include all the activities that can sustain and nurture what will become an essentially stand-alone museum service. A critical mass of activity is needed to produce a robust, resilient service capable of surviving outside the County’s umbrella. Half measures will be worse than no measures at all.

The Heritage Context

10 Taking a view on the future shape and configuration of Lancaster’s heritage clusters will help determine the recommendations to be made regarding the direction and operation of any future Partnership agreements. From the diagrams, it is clear that the City Council has – at present – only limited influence over the future direction and management of the major cultural assets of the City as a whole.



Cluster 1	those museums that are the subject of the Partnership Agreement whereby the County manages the museums on behalf of the City, the City retaining ownership of the buildings and the collections (the Roman Baths being treated as part of the City Museum for these purposes)
Cluster 2	those heritage, cultural and leisure outlets that are managed directly by the City and for which future action and operational control lies solely with the City
Cluster 3	those outlets which are either owned or managed directly by the County outside of the Partnership Agreement with the City
Cluster 4	those outlets – owned and managed by others – over which both the City and County have little or no influence and no management involvement: the majority

The Agreement – Cost to the City

11 A review of the existing contract indicates that the City pays the County some £549,000 a year for its services, allocated across the following broad headings (note that these figures are as at February 2012:

Management Fee Allocation	City	KORR	Maritime	Cottage	Total	% of total
Expenditure	£000	£000	£000	£000	£000	
1 Employees	121.00	28.50	124.60	5.00	279.10	50.8%
2 Premises	17.70	0.00	27.80	1.00	46.50	8.5%
3 Transport	1.00	0.50	1.00	0.00	2.50	0.5%
4 Supplies/Services	24.50	6.30	36.50	0.50	67.80	12.3%
5 Conservation/Design/ Exhibitions/Marketing/ Senior Management	72.90	0.00	72.90	0.00	145.80	26.6%
6 Central and Technical Support	26.50	0.00	26.50	0.00	53.00	9.7%
7 Total	263.60	35.30	289.30	6.50	594.70	108.3%
8 Fees and Charges Income	-12.70	-7.00	-24.00	-2.00	-45.70	-8.3%
9 Net Total	250.90	28.30	265.30	4.50	549.00	100.0%

City: City Museum; KORR: Kings' Own Regimental Museum; Maritime: Maritime Museum; Cottage: Cottage Museum

12 Considering the above table, it is clear that the majority (72%) of these funds are either staff or premises related (rows 1 and 2) or are concerned directly with point-of-delivery activities (transport and supplies/services; rows 3 and 4). The remainder (rows 5 and 6; 28% or £198,000) is paid to the County for services that – whilst essential for the proper running of the museums – *could* either be managed in-house, by other offices of the City or through competitive outsourcing. Specifically, these are (a) conservation, (b) design, (c) exhibitions, (d) marketing, (e) senior management and (f) central and technical support.

13 The key questions facing the City in its future thinking on the Agreement therefore need to focus on:

- ⑩ the degree it wishes to continue to outsource its museum operations
- ⑩ developing a clear strategy for the museums as part of the wider heritage provision in Lancaster
- ⑩ reviewing the services provided under the Agreement to maximise the benefits to the City whether these services are to be provided by the City or by others

- ⑩ value for money considerations – reducing the per capita subsidy either by increasing visitor numbers or by reducing costs.

Outsourcing -v- Insourcing

14 Under the terms of the existing Museum Partnership Arrangement, the City effectively outsources the operation of its museums to the County for an annual fee. Outsourcing – the process of contracting an existing (business) function or process to an independent organisation, and ceasing to perform that function or process internally – is a common feature of the wider (commercial) economy. It is differentiated from placing a service contract where specific tasks (such as legal services) are contracted to support in-house management. In general, outsourcing tends to operate at the third (lowest) level of business processes:

Level 1	management processes that govern the operation of a business, including corporate governance and strategic planning
Level 2	operational processes that constitute the core business and create the primary value stream, including branding, marketing, advertising, sales and front-of-house
Level 3	support processes that aid in the delivery of the operational processes, such as accounting, recruitment and IT support.

15 Each of these three levels of the business process is designed to add value for the customer through increased effectiveness, and reduce costs to the business through increased efficiency. However, it is rare for Levels 1 or 2 functions – those that govern strategic planning and the creation of the primary value stream – to be outsourced, as is the case under the existing Agreement, since these Levels define the very heart of the business or service, what it stands for, and what it wants to become.

16 Insourcing (the opposite of outsourcing) is the delegation of operations from within a business to an internal, possibly stand-alone, entity that specialises in that operation. As a business model, insourcing thus maintains the in-house control of critical competencies, functions and strategies, especially – and crucially – at Levels 1 and 2.

17 Essentially, the key question is:

can the City's museums operate more effectively, contribute more to the City and provide greater value for money if they are managed in-house, or outsourced as at present or are there other options?

Philosophy

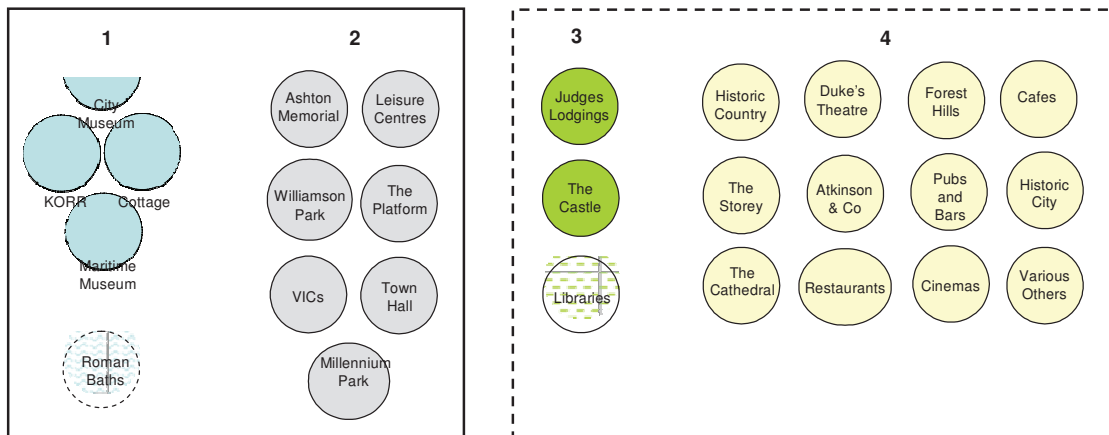
18 The City Council has, at its disposal, a number of important heritage, cultural and leisure assets that it manages, primarily, for the benefit of its residents and those that choose to visit Lancaster, Morecambe and the surrounding countryside and coastline. The City manages the majority of these assets in-house. As far as the heritage (both built and cultural) is concerned, the Council now has an opportunity to redefine its

relationship with one of the primary drivers of local pride, education, leisure opportunities and feel-good factors within the City and its District: its museum service and what it can offer beyond the confines of the buildings it occupies.

19 In terms of the future heritage landscape of Lancaster is concerned, a prudent view would be for the City to act on – and contemplate acting on – *only those assets over which it has control*. The philosophy for the City is one of minimising risk in future development by the City managing and developing *what* it can – *because* it can – whilst maintaining an opportunistic, watching brief on other developments that are – and will probably remain – outside its control. This implies that the museum service should contribute to the City in two major ways:

- ⑩ running the three museums under a revitalised business plan, whilst taking cognisance of the Judges’ Lodgings and Castle to provide an integrated service
- ⑩ contributing to the operation of other suitable sites under the control of the City by way of providing exhibitions (both permanent and special) and expertise; suitable initial sites are the Platform and Williamson Park.

20 In this way, two clusters of heritage facilities would emerge in the City: one owned, managed and operated by the City, a second owned by various others (including the County Council) and operated in various ways:



21 Moreover, the City’s museums – by making a contribution not only to their headquarters buildings but throughout the City and District – would, at a stroke, increase their penetration into the local market thereby both reducing the headline subsidy per visitor/user, and making the service more relevant to the City and its people. Having the museums contribute in this way is only really possible if they are truly *part of* the City and its future development.

22 The service would thus act as an resource for the City as a whole (with a specialisation in heritage matters) whilst at the same time operate the heritage outlets of the City, Maritime and Cottage museums. Such a resource would also need to maintain and develop close partnering arrangements with other heritage providers in the area, particularly the County. The key point is that the City will need to be a central part of the heritage network in its region – it should not, and cannot afford, to be isolationist:

Governance

23 As governance is about how decisions are made in an organisation, it is essential to planning for the future, monitoring progress, fulfilling legal requirements, being open to a range of people and views and responding to change. Whilst existing officers and elected members hold the final responsibility for making sure that these things are done, governance is also about how new board members are chosen, informed, developed and supported.

24 At present, the County is the *de facto* deliverer of the museums service and, it would appear, has been left very much to its own devices by the City. A transfer to the City or a new enhanced agreement would involve the repatriation of all the tasks required of a governing authority:

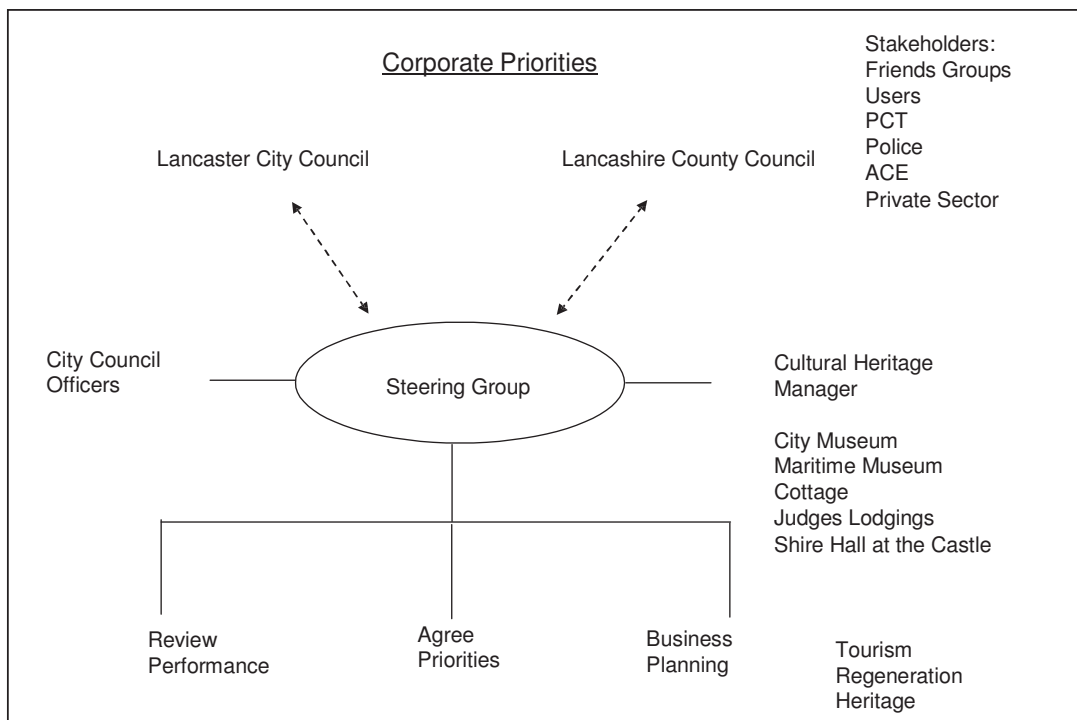
Task	
1	Determine the organisation's mission and vision
2	Engage in strategic planning
3	Formulate needed policies
4	Approve and monitor the organisation's programmes and services
5	Ensure adequate financial resources
6	Provide effective fiscal oversight and ensure sound risk management
7	Act as a responsible employer
8	Enhance the organisation's public image
9	Carefully select and induct new board members
10	Carry out board business effectively

Option 5 - Enhanced Offer by the County

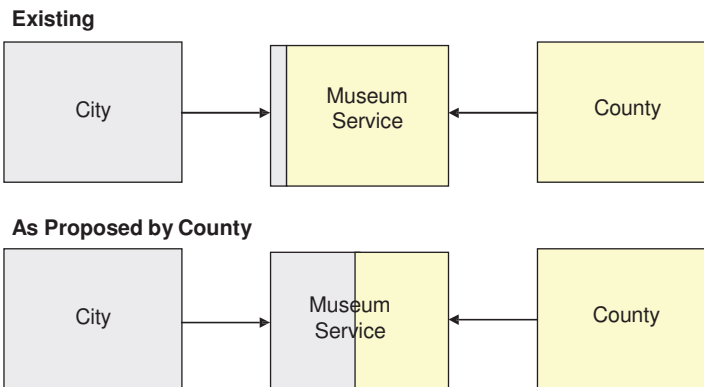
25 During the course of working on this report, a number of meetings took place with officers of Lancashire County Council, at which the main recommendations of the work (as they were progressing) were discussed. One outcome of these meetings was a proposal of a revised ('enhanced') relationship between the City and the County as a development of the arrangements currently in place. This is effectively this report's Option 5: enhancing the existing relationship.

26 Essentially the proposal suggests that the existing arrangements for the management of the City, Maritime and Cottage Museums in Lancaster on behalf of the City Council could be both improved and delivered at a reduced cost. The County suggests that the present sum contributed annually by the City Council could now be reduced by £50,000 (to £500,000 a year) as a result of the savings made in the overall operating costs of the County's Museum Service due to restructuring and the creation of the Cultural Services block. It has thus been assumed that – operationally (for the purposes of this report) – the delivery would be the same as in the existing contract. The financial implications of this are set out later in this Section.

27 This option suggests that an appropriate governing body (a Joint Museums Service Group) involving elected members is needed to ensure "the alignment of the museums operations within the district (both City and County) with the priorities of both authorities" and notes that the "lack of just such a body has been a key factor in the organisational drift which has held back the development of the City's museums over the years of the existing agreement". To overcome this operational drift, the County proposes that a coordinated, strategic approach is delivered for the operation of the museums in the Lancaster District via a joint museums service group comprising an appropriate number of councillors from both City and County – possibly the Cabinet/Lead member and one or two other councillors from each council. The proposed structure is shown as:



- 28 Officers would also meet on a regular (at least quarterly basis) to deal with operational matters, and co-ordinate the development of the shared business plan and strategic plan for consideration by the Group, which itself would not have decision-making powers, as these would be subject to the normal processes of the two authorities. The Group would therefore advise the authorities on the operation of the museums and also on proposed development plans. Budgets would also continue to be agreed by the respective councils under their usual processes, but informed by the agreed ambitions of the Group, if accepted by the respective authorities.
- 29 In summary, this approach is effectively maintaining the status quo operationally, jointly seeking improvement to the quality of the service adding a layer of governance between the City and the County and the museums in Lancaster that – if implemented and maintained – would give the City a greater involvement in the future of its museums at both member and officer level and the ability to influence and integrate the museums offer within the wider cultural offering of the district and wider region:



- 30 The key advantage of this proposal to the City is that the annual cost to the City of the operation of its museums is known and fixed at £500,000 a year as at year 1, offering an instant saving of £50,000 a year, rising to over £54,000 a year if a 2% real year-on-year increase is assumed. This equates to a total saving over five years of just over £260,000. The immediate question arises that – if the County can effectively save £50,000 a year by way of “savings made in the overall operating costs of the County’s Museum Service due to restructuring and the creation of the Cultural Services block” (ie, at the strategic level) can it make further savings by way of a detailed look at the workings of the City, County and Cottage museums (ie, at the operational level) to effect either further savings or increased income for the financial benefit of the City. This will be investigated further going forward if this option is selected.
- 31 Assuming that such a level of investment is undertaken – and that a contract with the County at £500,000 at year 1 values is implemented – the five year financial summary would emerge as:

Operational Year	1	2	3	4	5	Totals	
Financial Year	2013-14	2014-15	2015-16	2016-17	2017-18		
Initial Transfer Costs	50,000	0				50,000	
Cost of Enhanced Contract with County (+2% pa)	500,000	510,000	520,200	530,604	541,216	2,602,020	
Employee)						
Premises, Transport and Supplies)	all included in the contract price					
Supplies and Services)						
Conservation, Marketing and Exhibitions)						
Year Total	550,000	510,000	520,200	530,604	541,216	2,652,020	
Visitor/user Numbers	73,200	73,200	73,200	73,200	73,200	366,000	
Income - retained by County	0	0	0	0	0	0	
Net annual cost	550,000	510,000	520,200	530,604	541,216	2,652,020	
Cost of Current Annual Contract (2% compound)	549,000	559,980	571,180	582,603	594,255	2,857,018	
Saving per year	-1,000	49,980	50,980	51,999	53,039	204,998	
Cumulative Saving	-1,000	48,980	99,960	151,959	204,998		
Crude IRR (nett saving with transfer investment)	-51,000	-1,020	49,960	101,959	154,998		
Return percentages	-2%	98%	200%	304%	410%		
Average IRR over first five years					82%		

- 32 From the City's point of view this might be an attractive offer. It is minimal risk, carries on an existing working relationship with a respected contractor, and requires that the City needs to do almost nothing to continue the contract. It is, of course, possible that no investment is to be made by the City on row 3. If this is the case then the headline financials will be even more favourable to the City (in purely monetary terms) than the table suggests, although visitor numbers might begin to suffer.
- 33 If this option is to be followed, the City needs to develop clear and defensible negotiating positions based on the recommended option of the main report, particularly in the key areas of:
- ⑩ Creating a vision for the delivery of the City's heritage by way of a five year master plan
 - ⑩ Management and governance, including the management of the contract by the City
 - ⑩ Value for money considerations and their demonstration
 - ⑩ Benchmarking and – crucially – the creation of performance indicators triggering either additional or reduced payments by the City to the County
 - ⑩ Proper reporting arrangements by the County to the City on agreed benchmarks and performance indicators
 - ⑩ The creation and delivery of capital investment strategies by both the City and the County
 - ⑩ The creation and delivery of commercial opportunities that are in the City's interest, including the City Museum's basement and potential catering and retail operations.
- 34 The decision to be made by the City is, essentially, to (a) carry on with the existing arrangements (as modified) or (b) take ownership of the City's heritage assets and deliver a key aspect of the City's published corporate plan. There is no viable middle ground. The remainder of this considers the latter course of action, which is the recommended option.

Option 6 – Repatriation of the Museums Service

35 At present, the following key functions are under contract to the County:

- ⑩ Conservation
- ⑩ Management
- ⑩ Design and Display
- ⑩ Marketing
- ⑩ Education and Learning
- ⑩ Collections.

36 Breaking down the management function in some detail, would imply that the following activities would be undertaken by the City after the Transfer, unless indicated otherwise:

	City	County	Contract
Curatorial and Documentation			
Research	*		*
Exhibitions	*		*
Cataloguing and documentation	*		
Interpretation and learning	*		
Professional Standards			
Accreditation	*		
Code of Ethics	*		
Conservation			
Storage and housekeeping	*		
Basic collections care		*	
Specialist repair and restoration		*	
Specialist advice on handling, storage etc		*	
One-off project conservation		*	*
Materials purchase	*		
Collections Management			
Budget holder *	*		
Design and Technology			
Brief setting and management	*		
Design and delivery			*
Upgrade permanent exhibitions			*
Budget management	*		
Administration			
Communications	*		
Cash and finances	*		
Procurement procedures	*		
Marketing			
Policies and ideas	*		
e-marketing	*		
Distribution	*		
Education			
Outreach	*		
School links	*		
Exhibition loans	*		
Priority schools	*		
Community and youth	*		

- The KORR has a separate budget authorised by its Trustees

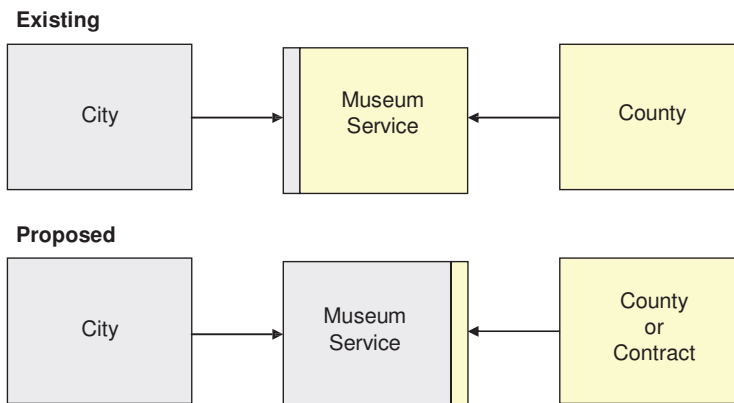
37 The above implies that *all* the functions are managed in-house by the City, with four areas (specialist repair and restoration, specialist advice on object handling, the design and delivery of exhibitions and the upgrade of the permanent collections) being offered for tender by the City under its usual procurement procedures and practices to the County and, if thought necessary, to independent third parties.

38 This re-allocation of responsibilities would give the City freedom to develop the museums as it sees fit, with the County acting as a third party contractor for defined services, at an agreed fee, possibly in competition with other bodies or private contractors for services such as exhibition design and the upgrading of the permanent exhibits.

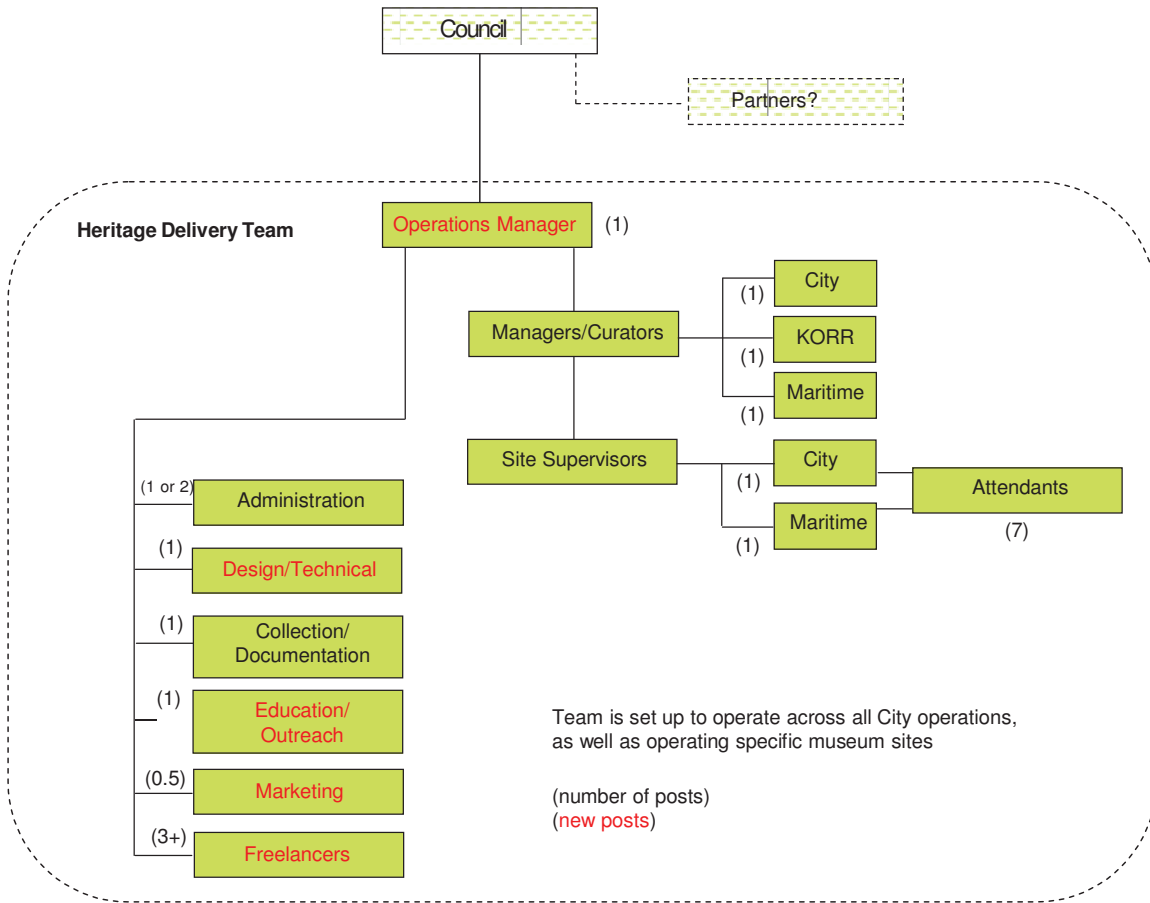
39 Following the Transfer, the City will:

- ⑩ have direct control over all the public-facing elements of the service
- ⑩ have a management contract with the County for clearly specified and costed activities that the County will perform under the contract
- ⑩ use staff transferred from the County under TUPE arrangements to manage the service
- ⑩ place external contracts for activities that it is financially prudent to do so, under briefs set and managed by the service, and produced under the usual tendering procedures operated by the City.

40 The effect is thus to transfer the responsibility for running the museums from the County to the City:



41 . A suitable staffing structure to deliver such a service across the City is shown below, with new posts shown in red.



42 Staff costs for this structure are shown below. Existing staff are assumed to transfer from the County to the City at current rates. New staff salaries have been estimated from published comparators.

A	D	E
	£: year 1	£: year 1
Operations Manager *	36,000	
City Museum Curator	30,207	
Lancaster Cottage (casual, seasonal)	5,330	
Kings Own Museum Curator	35,619	
Maritime Museum Curator	30,207	
Area Manager North	0	
Site Supervisors (2)	50,150	
Design and Technical Officer	18,000	
Collection and Documentation Officer	22,487	
Education and Outreach Officer	22,487	
Administration Officer(s)	17,768	
Marketing Officer	22,488	
Museum Attendants (7 fte across all sites)	129,334	
Freelancers	10,000	
Sub-total (incl PAYE/NIC etc)		430,077

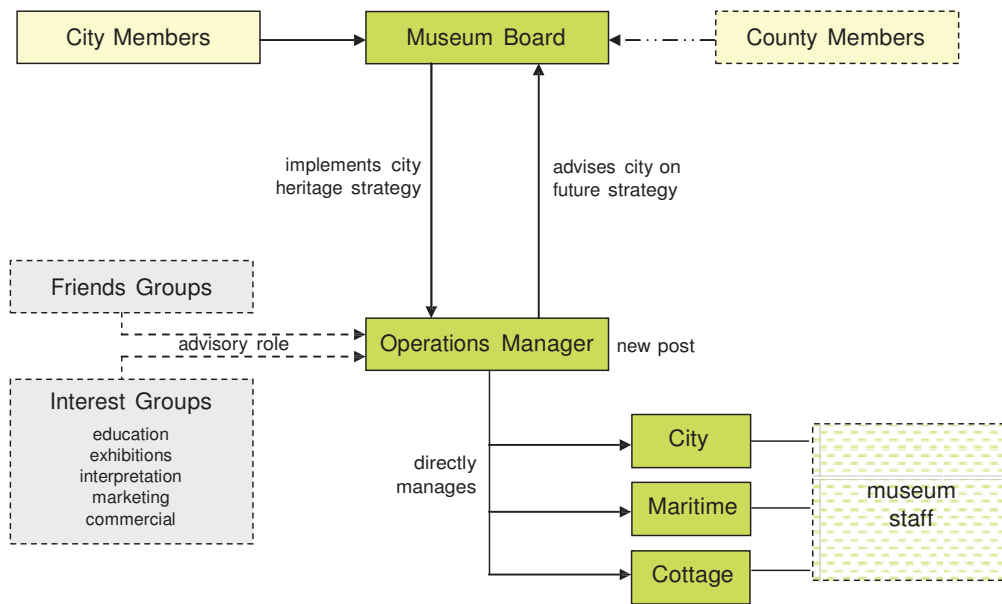
* see paragraph 48

43 In the above scenario, whilst identified members of staff are notionally assigned to one museum (for example, the curator of the KORR in the City Museum), they will be encouraged to have – and will need to have – City-wide responsibilities for the provision of the heritage service, by using their expertise and skills in areas that at first sight might not be their primary responsibility. A new, dedicated post of marketing officer has been assumed as being half-time. This is because it is assumed that the City will use its central marketing personnel for the museums service.

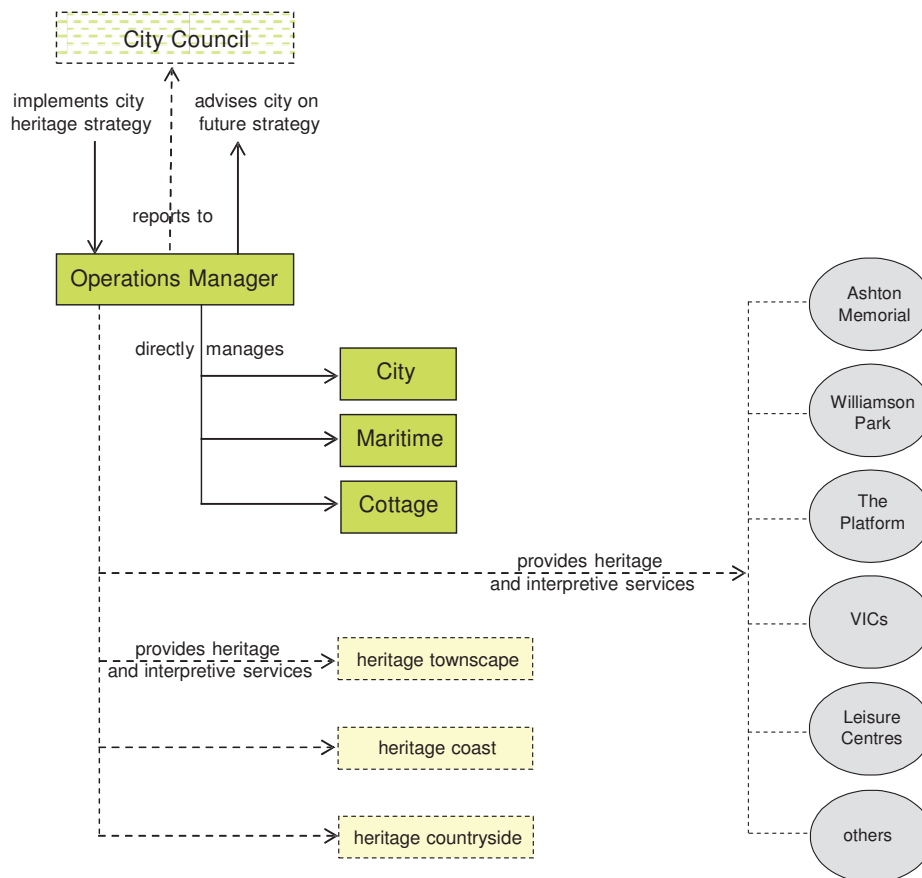
44 The key here is to establish a core, enabling service of outward-looking, curatorial and museum expertise that can be used (a) in the sites under its care, (b) across the wider City and (c) outside the City into the surrounding (rural) areas to enable the knowledge, skills and enthusiasm of the museum professionals to engage all communities – near and far – in the stories they have to tell.

45 For the service to become real and relevant, all staff (from the managers to the attendants) need to be trained, encouraged and aided in their future roles and responsibilities. Financial provision for this has been built into the transfer budget.

46 A firm recommendation is that the City creates and maintains a museum board for the express purpose of maintaining the museums' planning cycle and setting all policies for the future direction of the museums service.



- 47 The proposed management arrangements maintain a role for the various Friends Groups in offering support and advice to the service through the operations manager, and offers the potential for the creation of Interest Groups each of which would be concerned with an aspect of service delivery and would draw its membership from local professionals and others interested in the future well-being of the service.
- 48 A new post of Operations Manager is proposed. This assumes that the City manages the museums directly, with this new post providing the senior management roles currently being undertaken by the County's central museum staff.



- 49 The operations manager's post would focus on the promotion and development of the service as a public and commercial resource and would also be responsible for providing an insourced resource for the City as a whole. The professional and educational roles of the three museums would be delivered by the existing professional museum staff. KORR *

Value for Money

- 50 Value for money (VfM) is usually defined in terms of the combination of three descriptors: economy, efficiency and effectiveness, the objective being to create a relatively low cost, high productivity service delivering successful outcomes.
- 51 It is clear from the material examined as part of this report that VfM studies are not regular occurrences in museum services across the country – and even where these have taken place there is anecdotal doubt over the reliability and validity of the methods used. Hence, an initial – and urgent – first step in approaching VfM for the museums is to establish – and, above all, carry out – annual assessments of the service's performance. As a start, benchmarking should take place as soon as possible so that the effect of the new arrangements can be assessed. This is a vital activity since one of the criteria set for assessing whether the Transfer is worthwhile is VfM and, unfortunately, the tools are not available at present to research this.
- 52 Even with this lack of verifiable data, the level of public subsidy per visitor can be approximated using existing information.
- 53 Visitor numbers of 53,311 were reported for 2010-11 for the museums, generating a per capita cost per visitor of £14.00 when taking into account support service costs and notional capital charges, or £10.23 per visitor taking into account only the County's management fee. At this level, the service in Lancaster is subsidised more per visitor than nearly all the well-known national museums in central London, for which access is predominantly free.
- 54 As part of the Transfer, the objective of the service in Lancaster must therefore be to reduce the level of subsidy per visitor, thereby increasing VfM. The latter can be achieved (a) by reducing costs, and/or (b) by increasing visitor numbers.
- 55 Bearing in mind that the majority (72%) of the cost of running the service is either staff- or premises-related, or is concerned directly with point-of-delivery activities, reducing cost in any meaningful way would necessarily imply staff redundancies or the retraction of services. Both of these are likely to lead to fewer visitors, and hence are unlikely to have a major, positive impact on reducing subsidy per visitor and thus improving VfM. On the contrary, they would give the impression that the service is retrenching, and might actually reduce the current VfM. The second way – that of increasing visitor numbers – would appear to be the preferred route. A way forward for revitalising the City Museum has been proposed by the authors, calling for a series of *Quick Wins*, all of which remain relevant and needed:
- ⑩ a new brand
 - ⑩ new signage, including banners to the front-of-house
 - ⑩ a new interpretive master plan for the Museum in the context of Lancaster as a whole
 - ⑩ a master plan for the new museum offer, including the extension and basement
 - ⑩ consider the development of the basement by a third party commercial operator, the activity to be in keeping with both the history of the building and the spirit of the

- ⑩ install new orientation gallery on Ground Floor of City Museum
 - ⑩ install new retail outlet on the Ground Floor of City Museum
- 56 One of these – a new interpretive master plan for the museum service in Lancaster – is now an urgent priority. There is a need for the City to *know* what is happening (and is going to happen) to its museums so that (a) they can truly play their part in the City's heritage-related economic development, and (b) reference themselves against whatever else might happen to the heritage of Lancaster in the future.
- 57 A similar exercise to that undertaken in 2011 for the City Museum now needs to be undertaken, as a matter of priority, for the Maritime.
- 58 Notwithstanding this need, the immediate requirement is (a) to consider ways of increasing visitor numbers, and hence reducing subsidy per visitor. A second is (b) to increase spend per head in the museum shops, thereby also reducing the subsidy.
- 59 For the City Museum, the previous report made it clear that if its recommendations were implemented visitor numbers were expected to rise to 67,000:

	Visitor projections	Current	Expected	Uplift	Uplift %
1	City Museum (and KORR)	53,000	67,000	14,000	26%
2	Maritime	19,200	38,400	19,200	100%
3	Cottage	1,000	2,000	1,000	100%
4	Storey exhibition space	0	0	0	n/a
5	Platform	0	12,500	12,500	n/a
6	Williamson Park etc	0	25,000	25,000	n/a
7	Others	0	12,500	12,500	n/a
8	Totals	73,200	157,400	84,200	215%
9	Subsidy on visitor numbers *	£14.00	£6.51		-47%
10	Subsidy on visitor numbers **	£10.23	£4.76		-47%

* including support service costs and notional capital charges

** excluding support service costs and notional capital charges

- 60 Row 2 shows a doubling of visitors to the Maritime Museum, created by the removal of admission charges (of which more below). Row 3 shows the Cottage Museum doubling its visitors to 2,000 a year, created by the removal of admission charges, and assuming that the building has the capacity. In any event, this only adds 1,000 visitors to the total. Rows 4 through 7 show visitors to various locations (again, each with free entry) that currently are either under-used by the City for museum exhibitions or are not used at all. These are additional, found spaces which the museum service (under its new management) should be tasked to exploit. Row 8 summarises the effect of these changes, whilst rows 9 and 10 show significant reductions in subsidy (almost by half) to much more acceptable levels.
- 61 At present, the City Museum produces an income of £12,700 a year (excluding the KORR's £7,000), the Maritime £24,000 and the Cottage £2,000: a total (excluding the KORR) of £38,796. This produces a total income per visitor (assuming all incomes are visitor-generated) of 53 pence.

62 If the Quick Win changes to the City Museum are implemented, and if the Maritime Museum is free to enter, nett income per attracted visitor can be expected to at least double to the average for small museums of £1.25 (source: the 2011 benchmarking study by Dr Harriet Foster produced an average of £1.18 at 2010 prices, estimated at £1.25 for the purposes of this report). This would add a further £95,550 of income from the City, Maritime and Cottage museums, and an additional £62,500 if the spaces indicated in the following table (rows 4 through 7) are included. In summary, the total income generated would be £196,750. The effect on the subsidy per visitor of these changes is dramatic and is set out below in rows 11 and 12:

			Current	Expected	Expected	Expected
	Visitor projections	Current	Expected	Income	Income	Income
1	City Museum (and KORR)	53,000	67,000	28,090	83,750	
2	Maritime	19,200	38,400	10,176	48,000	
3	Cottage	1,000	2,000	530	2,500	
4	Storey exhibition space	0	0	0		0
5	Platform	0	12,500	0		15,625
6	Williamson Park etc	0	25,000	0		31,250
7	Others	0	12,500	0		15,625
8	Totals	73,200	157,400	38,796	134,250	62,500
9	Gain in income				95,454	62,500
10	Effect on subsidy:					
11	Subsidy on visitor numbers *	£14.00	£6.51		£5.21	£4.23
12	Subsidy on visitor numbers **	£10.23	£4.76		£3.81	£3.09

* including support service costs and notional capital charges

** excluding support service costs and notional capital charges

63 In the above table, income from exhibitions at remote venues (rows 4 through 7) is shown. This is income (both retail and catering) that, whilst being collected at and by the various venues such as the café and shop in Williamson Park), can be hypothecated as having been raised by the museum service because of the activities and/or exhibitions it has put on in these places. Hence, by implementing these changes, VfM across this crude measure can be seen to increase dramatically.

Capitalised Establishment Costs

64 It is clear that repatriating the museums service to the City will have an up-front cost which is in addition to the annual operating budget. This is because the City will need, at minimum, to:

- ⑩ establish new systems for some of its activities
- ⑩ attract new staff
- ⑩ re-train existing staff in the new tasks required of them
- ⑩ re-brand, and re-launch the service as part of the wider City brand

- ⑩ undertake essential front-of-house capital projects in both the City and Maritime museums in order to demonstrate publicly that the City has taken full responsibility for the service, and
 - ⑩ make the buildings operationally more efficient whilst produce a master-plan for the delivery of heritage concerns across the City and its District for the next (say) five years of operation
 - ⑩ catch up with the lack of capital investment in the buildings over the last decade.
- 65 A detailed list of these establishment tasks is shown overpage, together with an estimate of their cost. In practice, all these costs should be subject to best-value testing through the City's usual procurement arrangements. In summary, the establishment costs total £238,875 spread over two years: £208,740 (87%) in operational year 1 and £30,135 (13%) in year 2.
- 66 In assessing the value of these up-front costs, the City uses a form of internal rate of return estimate to compare the viability of its capital investments. In crude terms, it requires a full (100%) return on investment within five years, preferably between three and five years. This requirement has been used to inform the scheduling of the capitalised establishment costs in relation to their pay-back by way of operational returns over the initial five year operational period (FY 2013-2014 to FY 2017-2018).
- 67 The business case, set out demonstrates that full return on capital is made during operational year 5 (FY 2017-2018), with 70% of the total establishment costs returned in year 4 (FY 2016-2017). The numbers assume, however, that the City pays for the capital works itself and does not offset any cost through, for example, grants or partnering arrangements. Should grants etc be attracted at some point during the five years, the IRR would obviously improve greatly.

	Item £	Total £	year 1	year 2
1 Data management system (1)				
Preparation and installation on City's computer network (2)	1,000			
User licences (four in number) (3)	11,000			
Data migration (4)	0			
Interface for website (5)	8,000			
First year support cost (6)	2,000			
Sub-total		22,000	22,000	
(1) the KE Emu system produced and developed by KE Software Pty Ltd with head offices in Canada				
(2) base costs provided by Caroline Wilkinson, Documentation Officer LCMS; rounded by A P+P				
(3) including web presence through one license				
(4) assuming that a copy of the LCMS set-up is used, otherwise £2,000				
(5) IMu (Internet Museum System; part of KE Emu) installation, including a homepage, search facility and narratives browser				
(6) Includes maintenance, support and upgrades; annual thereafter				
2 Recruitment of new staff				
Advertising and selection	3,000			
Interview expenses	1,000			
Hand-over costs	1,000			
Sub-total		5,000	5,000	
3 Training and Induction				
Budget (all staff)	10,000			
Contract contribution	3,000			
Sub-total		13,000	13,000	
4 Interpretive masterplan				
For the service, each museum and the wider City (1)	40,000			
Sub-total		40,000	30,000	10,000
(1) produced in the years 1 and 2 of operation, implemented year 2 onwards; includes 3rd party fees				
5 New brand				
Market research and surveys to establish true base-line position	5,000			
Research, production and roll-out (1)	25,000			
New banners and signage (2)	15,000			
Establish presence on Lancaster City website (3)	5,000			
'Market stall' promotion for City Museum in Market Square	5,000			
Sub-total		55,000	36,300	18,700
(1) including initial re-launch marketing budget of £20,000				
(2) for the City, Maritime and Cottage Museums				
(3) assumes prepared by the City's web providers; links maintained to LCMS				
6 Exhibitions launching new service (1)				
City Museum	5,000			
Maritime Museum	5,000			
The Platform, Morecambe	5,000			
Williamson Park	5,000			
Travelling (to rural venues - to be decided)	7,500			
Sub-total		27,500	27,500	
(1) five in total; all temporary: four months duration at each site; could be rotated				
7 Re-configuration of entrances and front-of-house (1)				
City Museum	40,000			
Maritime Museum	25,000			
Sub-total		65,000	65,000	
(1) including design and installation, and encompassing new retail and catering areas				
8 Summaries				
Sub-total (all elements: blocks 1 thru 7)		227,500	198,800	28,700
Add: 5% (contingency and inflation)		11,375	9,940	1,435
Budget (carried forward to business case year 1)		238,875	208,740	30,135

General Notes

All figures exclude VAT, but include fees, third party costs, and installation and delivery costs, save those stated in the note below
Budget assumes that other professional costs (legal and accounting) are borne directly by the City and at no cost to the museum service

The Business Case

68 In planning the new museum operations as an insourced resource for the City, decisions will need to be made to ensure that the new arrangements will lead to a well-managed, well-marketed service, attractive to visitors and residents alike. The chances of sustained success will be enhanced, as proposed, by the service taking a more outward-looking, proactive role in heritage provision within the District rather than being restricted to the current outlets of, essentially, the City and Maritime museums. The proposed staffing arrangements, discussed earlier, reflect this.

69 In the following tables, a comparison is made between the existing operation by the County (columns B and C) with those proposed for the City-managed service (columns D and E). Costs for the current operation have been supplied by the County, those for the new operation have been assessed by the consultants using precedents from elsewhere and industry norms as appropriate.

A	B	C	D	E
	£: current	£: current	£: year 1	£: year 1
Operations Manager			36,000	
City Museum Curator	30,207		30,207	
Lancaster Cottage (casual, seasonal)	5,450		5,330	
Kings Own Museum Curator	35,114		35,619	
Maritime Museum Curator	30,207		30,207	
Area Manager North	0		0	
Site Supervisors (2)	47,700		50,150	
Design and Technical Officer			18,000	
Collection and Documentation Officer	22,113		22,487	
Education and Outreach Officer			22,487	
Administration Officer(s)	17,768		17,768	
Marketing Officer (half time)			11,244	
Museum Attendants (7 fte across all sites)	127,177		129,334	
Freelancers			10,000	
Sub-total (incl PAYE/NIC etc)		315,736		418,833

70 Total staff costs (column E) have increased by over £100,000 a year due to the fact that the City will be recruiting new staff to run the operation in-house: row 2 (the operations manager), row 9 (design and technical officer), row 11 (education and outreach officer), row 13 (marketing officer, half-time) and row 15 (freelance programme delivery staff) refer. This increase will be offset by savings against the central costs currently charged by the County under the contract.

71 These Services costs have been increased by an average 10% save for row 24 which has been increased by 50% to take into account increased visitor numbers.

27	Repair & Maintenance	0	0
28	Running Costs	0	0
29	Contract Hire	0	0
30	Public Transport	1,137	1,421
31	Car Allowances	1,122	1,403
32	Transport Insurances	0	0
33	Transport Recharge	0	0
34	Sub-total		2,259
			2,824

72 These Transport costs have been increased by an average 25% to take into account increased activity.

35	Equipment & Furniture	18,171		19,080
36	Goods for Resale	12,015		48,060
37	Display Maintenance/Public Programme	9,741		19,482
38	Collections Care	0		0
39	Arts Promotion	0		0
40	Catering	4,876		19,504
41	Clothing, Uniforms & Laundry	331		364
42	Printing, Stationery & General Office Exp	4,680		4,914
43	Postage	609		639
44	Telephones & Telex	4,830		5,313
45	Computers	1,168		1,460
46	Subsistence & Conference	17		200
47	Subscriptions	313		400
48	Grants to Voluntary Organisations	0		0
49	Marketing	1,432		14,320
50	H&C, Hospitality	2,931		3,224
51	Contributions to Funds	3,000		3,300
52	Miscellaneous Expenses	3,172		7,013
53	Sub-total		67,286	147,273

73 The majority of these costs General Operational Costs have been increased by 10% to reflect the increased operational activity. Three elements are increased more significantly. Goods for resale (row 36) has been increased four-fold to reflect the increased retail activity envisaged on-site at the museums and in various remote locations; catering cost (row 40) has also been increased four-fold to reflect the increased catering activity envisaged; the marketing budget (row 49) has been increased ten-fold to underpin the operational imperative of attracting more visitors to the museums and to the off-site activities. Miscellaneous expenses (row 52) have also doubled as a function of them being 5% of rows 35 through 51. In summary, this sub-set of costs has doubled under the proposed arrangements.

54	Contents Insurance	1,779		1,868
55	Practical Conservation	0		0
56	Museum Service Van Costs	1,334		1,467
57	Employee insurance proportion	72		0
58	1/11 of Conservation budget	16,690		0
59	Conservation Budget			18,359
60	Emu Documentation System			9,000
61	Web Maintenance			2,000
62	1/11 of Exhibitions, Design, Marketing, Learning	86,596		0
63	Exhibitions Budget (including Design)			70,000
64	Education, Learning and Outreach Budget			15,000
65	1/11 of Senior Management Staff	29,690		0
66	1/11 of Unit O	10,665		0
67	Sub-total		146,826	117,694

74 At present the City pays the County 1/11th of the County's costs for the Professional Operational Costs of conservation (row 58), exhibitions, design, marketing and learning (row 62), senior management staff (row 65) and the Unit O storage facility (row 66). The proposed new staffing arrangements mean that the new costs for these services are for the delivery of the service specifically at the City rather than as a percentage of the County-wide operation. Savings in the region of 25% are therefore potentially available (row 67).

68	Clerical and Technical	53,000		0
69	Sub-total		53,000	0

75 These Clerical and Technical costs will not be needed by the new City-based service from the County and have therefore been set at zero.

A	B	C	D	E
	£: current	£: current	£: year 1	£: year 1
Total Cost		631,581		739,166

76 The proposed arrangements show a headline increase in costs of around £110,000 (column E, row 70), the majority being incurred by increased staff, retail, catering and marketing costs. These increased costs are essential in order to support the increased level of activity envisaged, as reflected in the increased income generated by the service.

A	B	C	D	E
71	Income			
72	Sales of Goods	20,022		147,563
73	Sales of Refreshments	7,171		49,188
74	Customer & Client Receipts Total		27,193	196,750
75	Admission Charges	8,911		0
76	Other Fees & Charges	4,972		0
77	Fees and Charges Total		13,883	
78	Rents - Inc	1,124		1,124
79	Rents Total		1,124	1,124
80	Sub-total - income		42,200	197,874
81				
82	Outcome (amount charged - calculated)		589,381	541,292

- 77 The outcome of the increased operation, balanced against the increased cost, is to reduce the nett cost of operating the service by some 9% against the calculated current cost (Figure 32, row 81) producing an estimated annual saving of £48,089 in operational year 1. Cost is reduced by £7,708 (1.5%) against the charge of £549,000 made by the County. Value for money is, however, increased substantially, as is the use of the service and hence its relevance to the people of Lancaster.
- 78 The headline assumptions are:
- ⑩ staff structure, personnel and operational budgets are made available to produce and sustain a vibrant on-site and off-site exhibitions programme (see previous sections)
 - ⑩ the Quick Wins and essential up-front works (specified in Section 11) are implemented
 - ⑩ there is free entry to all the museums and outreach locations (save for special exhibitions which are *not* accounted for in this report)
 - ⑩ increased visitor numbers from a total of 73,200 to 157,400 as a result of the implemented changes
 - ⑩ increased visitor dwell time
 - ⑩ increased spend per visitor from 53p to £1.25 as a result of the implemented changes
 - ⑩ total increase in earned income of £157,954 as a result of all the above.

Return on Investment

- 79 In assessing the value of the proposed up-front costs in association with the business case, this report has been mindful that the City requires a headline return on investment (crude IRR) of 100% within five years.
- 80 The table below shows the five year business case (rows 4 through 11) set against the initial investment (row 3) and the annual outturn (row 13) together with the cumulative outturn (row 14). Costs in row 4 have been increased by an annual average of 1.6% on advice from the City's Finance Department. Costs in rows 5 through 7 have been increased by 2% compound. Inflation in the model is assumed to be zero. Hence the 2% reflects a 2%-above-inflation (real) rise. Visitor numbers (row 9) have assumed to increase by 10%, 7.5%, 5% and 2.5% in years 2 through 5 as the service expands, improves and penetrates its market of approximately 6.4 million people. Visitor numbers can notionally assume zero growth after year 5. Income (row 10) is taken from the business case spreadsheet in Section 12 (Figure 31), inflated by 2% per annum real. Savings per year (row 13) is a function of row 11 minus row 12 (the latter inflated by 2% per annum). This produces a total estimated saving of £241,387 over the first five years of operation.

Operational Year	1	2	3	4	5	Totals
Financial Year	2013-14	2014-15	2015-16	2016-17	2017-18	
Initial Transfer Costs	208,740	30,135				238,875
Employee	418,833	430,383	442,721	446,790	446,790	2,185,515
Premises, Transport and Supplies	55,366	56,473	57,602	58,754	59,929	288,125
Supplies and Services	147,273	150,219	153,223	156,288	159,413	766,416
Conservation, Marketing and Exhibitions	117,694	120,048	122,449	124,898	127,396	612,486
Year Total	739,166	757,123	775,995	786,730	793,529	3,852,542
Visitor/user Numbers	157,400	173,140	186,126	195,432	200,318	912,415
Income	197,874	225,169	242,056	254,159	260,513	1,179,771
Net annual cost	541,292	531,954	533,939	532,571	533,016	2,672,771
Cost of Current Annual Contract (2% compound)	559,980	571,180	582,603	594,255	606,140	2,914,158
Saving per year	18,688	39,226	48,664	61,685	73,125	241,387
Cumulative Saving	18,688	57,914	106,578	168,263	241,387	
Code IRR (nett saving with transfer investment)	-190,052	-180,961	-132,297	-70,612	2,512	
Return percentages	9%	24%	45%	70%	101%	
Average IRR over first five years					20%	

82 In summary, row 16 shows that a return of 70% on capital is made during operational year 4 (FY 2016-2017), with 45% of the total establishment costs returned in year 3 (FY 2015- 2016). 101% is achieved during year 5, reflecting an average IRR of 20% over the five year period.

83 All this assumes, of course, that the City makes the entire investment itself, and does not lay off a proportion of the cost by way of grants or other financial support – as is the usual case in the museum and heritage sectors. If such a lay-off could be achieved, the returns would be much higher.

84 The single most significant sensitivity within these figures (excluding all external factors over which the new service will have little or no control) is visitor-generated income, and hence visitor numbers. Of interest is that the new arrangements will operate at less cost on an annual basis than the current contract with visitor income (Figure 34, row 10) at a rate 26% lower than that projected in Figure 33. This equates to a per-head income of just 93 pence per attracted visitor.

Summary

85 This report provides an indication of how the current partnership could be improved in order to bring it more in line with modern thinking, attract more visitors and make a positive contribution to the cultural offer and economy of Lancaster District.

86 It is clear that since the Partnership was entered into in 2003 many things have changed, not least the way(s) in which the County itself delivers its services across all the museums under its care, compounded by the fact that both organisations are operating under the harshest financial environment. That change continues through to the present day.

- 87 The way forward for the City's museums must be seen against this background: both the City and the County must move forward together, albeit with a revised arrangement, – but in the spirit of partnership and mutual benefit.

Appendix 1 List of Consultees

Thanks are due to the following for their contributions to this report.

Sue Ashworth	Museums Collections Manager	Lancashire County Council
Michelle Cooper	Museum Manager	Lancashire County Council
Heather David	Conservation Manager	Lancashire County Council
Peter Donnelly	Curator, King's Own Museum	Lancashire County Council
Heather Dowler	City Museum Manager	Lancashire County Council
Stuart Glover	Development Officer	Lancaster City Council
Will Griffin	Operations Officer	Lancaster City Council
Gill Haigh	Assistant Head, Community Engagement (Communications)	Lancaster City Council
Simon Kirby	Assistant Head Community Engagement (Wellbeing)	Lancaster City Council
Bruce Jackson	County Heritage Manager	Lancashire County Council
Angela Jackson	Principal HR Officer	Lancaster City Council
David Lawson	Assistant Head, Regeneration and Policy	Lancaster City Council
Susan Liddell	Museum Operations Manager	Lancashire County Council
Julie Raffaelli	Finance Department	Lancaster City Council
Rachel Roberts	Maritime Museum	Lancaster City Council
Elaine Rush	Business Manager	Lancashire County Council
Richard Tulej	Head of Corporate Strategy Service	Lancaster City Council
Ian Watson	Head, Cultural Services	Lancashire County Council
Caroline Wilkinson	Documentation Officer	Lancashire County Council
Ann Wood	Property Services	Lancaster City Council



**Storey Institute
12 September 2012**

Report of Chief Executive

PURPOSE OF REPORT

To provide an update on the current position regarding the operation of the Storey and seek direction on the future use of the building.

This report is public.

RECOMMENDATIONS

- (1) That the current position be noted.
- (2) That subject to the outcome of the liquidation process for SCIC Ltd and assuming that the headlease be forfeit, or otherwise terminated, Council indicates its preferred direction for the Storey Institute.
- (3) That Officers be authorised to investigate the removal of the restrictive covenant and to develop proposals in support of (2) above.
- (4) That it be noted that future decisions regarding the Storey Institute will be taken by Cabinet, subject to them being in accordance with the direction set under (2) above and the existing budget framework.

1 Introduction

- 1.1 At its meeting on 18 July 2012 Council considered an item of urgent business on the Storey Creative Industries Centre, further to the call-in of Cabinet’s earlier decision on this matter. It was resolved:
 - That the Council withdraws support for the SCIC Ltd by seeking forfeiture of the headlease from the company (which would have ceased trading in some way) and requests a report back on all future options for the building.

2 Recent Events

- 2.1 Subsequent to the above, on 15 August the Council learned that the company was to cease trading later that day and that the Board had commenced proceedings to put the company into voluntary liquidation. (Liquidation of the company would allow forfeiture proceedings to commence, in line with the resolution of Council.)
- 2.2 Clarification was sought on whether the building was to close, but it became evident that arrangements were being made to keep the building open, at least to some degree. Details of the arrangements were received from the sub-tenants on 16 August.
- 2.3 Following the company's decision to cease trading, on 17 August Council Officers met with sub-tenants, primarily to share information on the current position. There were still some uncertainties around utility connections and insurance matters and these have been clarified as far as possible. In effect, sub-tenants have taken on various responsibilities so that the building can remain open for the short term, pending the outcome of the liquidation process and the Council setting out its intentions regarding the future of the building.
- 2.4 The sub-tenants indicated that whilst the current interim arrangements could probably be maintained until around mid-October time, they could not be maintained indefinitely. They requested that Council makes a decision about the building's future as soon as possible, so that in turn they can take whatever decisions might be necessary for their own business interests. The sub-tenants stated that they would very much like to see the Storey remain as a creative industries centre and they would expect new lease terms and conditions to apply.
- 2.5 Regarding the company, a creditors' meeting has now been arranged for 04 September and it is reasonable to assume that a Liquidator will be appointed. There is no indication that any other outcome should be expected. This will enable the Council to commence forfeiture proceedings in respect of the lease, although it may be that the Liquidator may seek to disclaim or surrender the lease. Each of these scenarios would have different legal implications for the sub-tenants, although broadly they would have rights to remain in the building.

3 Future Direction and Context

- 3.1 In view of recent events, direction is sought from Council regarding the future for the building.
- 3.2 In considering the way forward, firstly it is perhaps worthwhile to recap on the discussions and decisions taken between 2006 to 2008, in deciding whether to develop the Storey as a Creative Industries Centre. Various reports are referred to as background documents for this report and are available to Councillors as a package on request. The decision-making was far from straightforward, disposal of the building was actively considered and each of the options considered carried significant risks.
- 3.3 Despite recent difficulties, it is also true to say that the Council has achieved what it set out to do in the medium term:
 - restore and convert the Storey Institute;
 - create a workspace and 'hub' for the creative industries sector.

- 3.4 Whilst clearly the management company itself has not proved financially sustainable and the venture has cost the Council more than it originally envisaged, this in itself does not determine the viability prospects for any Creative Industries Centre operation going forward.
- 3.5 It is understood that the building currently provides a base for around 10 organisations, although this is set to reduce as some of the larger companies move out. Although exact occupancy details have not been confirmed, it is known that the building is currently under-utilised in terms of rental space and under-performing financially. The Council has other workspace vacant and whilst those premises may not have the same features and character as the Storey, overall it means that there is scope to strengthen the performance of the Council's property portfolio.
- 3.6 Furthermore the Storey would require capital investment (as well as ongoing maintenance) to allow it to be fully utilised. The building is being assessed as part of the municipal buildings' conditions survey, which is due to be completed in November and reported through to Cabinet in January.
- 3.7 Looking to the future, the redevelopment of Lancaster Castle now presents new opportunities for the Storey, beyond those that may have existed previously.
- 3.8 Strategically, the building could make a significantly larger contribution to the Council's regeneration priorities than it has in recent times and it could work in financial terms. In order to achieve this, however, it is not necessary for the building to remain as a Creative Industries Centre or stay under the Council's control - the private and other sectors could have a role.

4 Options for the Future

- 4.1 A number of broad options are set out below. Fully developed and costed proposals would be worked up and reported back to Cabinet, with referral on to Council as need be. All options would require clawback, restrictive covenant, the rights of existing sub-tenants, VAT and various other matters to be addressed.
- 4.2 It is reiterated that only a direction is being sought from Council at this stage, rather than a detailed decision. It is perfectly acceptable for Council to take this approach. Full information and any value for money matters would be reported subsequently, to inform final decision-making. Council's preferred way forward (and the outcome of the liquidation process) will inform decisions regarding the Visitor Information Centre, at least in the short term.
- 4.3 Irrespective of the direction chosen, it does make sense to seek removal of the restrictive covenant to give the building as wider use as possible and this is reflected in the recommendations.

4.4 Option 1: Seek to continue operating as a Creative Industries Centre

- 4.4.1 The aim would be to retain the Centre's current core function, albeit on different terms and conditions for sub-tenants (and it may also require some widening of the tenant base to ensure fuller occupancy – a looser definition of “creative industry”). It would involve appraisal of whether the operation should be managed in-house or

externally, drawing on lessons learned from recent experience. The financial and any other operational objectives would also need to be appraised in due course (for example, what level of return would be acceptable and whether it represented value for money). It would also factor in how the current offer and usage could be improved, whilst retaining the building’s core function.

Advantages	Disadvantages	Risks
<p>Would allow creative industries centre to continue and develop, with spin off economic and community benefits.</p> <p>Allows tenants to remain (subject to satisfactory lease terms being in force).</p> <p>Secures a medium term use for the building but still provides opportunity for review, in due course.</p> <p>Retains control over use of building.</p>	<p>Major work and risks involved in setting up management arrangements – this should not be underestimated and it would have an adverse impact on other tasks and council priorities.</p> <p>Risks of ownership (and future investment needs) remain with Council.</p> <p>No rationalisation of property portfolio, although widening of core function / tenant base may assist with this in other ways.</p>	<p>Ongoing exposure in terms of managing the property in-house or procuring suitable external manager (drawing on recent experience).</p> <p>Stakeholder relationships may break down and agreement may not be reached on suitable operating model / lease terms; this aspect may have greater adverse reputational impact on the Council.</p> <p>Still the risk that the operation proves financially unviable.</p> <p>Residual clawback risks would remain.</p>

4.5 Option 2: Seek to sell the building

4.5.1 This would involve winding up the creative industries centre, obtaining vacant possession, giving sub-tenants appropriate time to relocate, and addressing all clawback and restrictive covenant matters etc. These factors would affect timescales for achieving any sale and clearly once sold, the Council would have no further involvement or control over the building. Its future sale may generate a significant capital receipt, which could be used to protect or progress other corporate priorities but there is no guarantee; this would be subject to the clawback position being addressed in a satisfactory manner (or the sale being deferred for a period to manage this). Future development of the Castle area would have a positive impact on sale prospects, in what would otherwise be a very depressed market. Disposal could be on either an open market or restricted basis; these and other details would be considered in due course.

4.5.2 Strategically, if the Council had no clear or affordable use for building in support of progressing its corporate priorities and wished to have no involvement in its future, and/or wished to focus on capital income generation, then this would be the appropriate option to pursue.

Advantages	Disadvantages	Risks
<p>Rationalises Council's property portfolio and transfers future maintenance/investment needs.</p> <p>Avoids the need to set up management arrangements and other work involved, as well as the risks attached in taking on the running of the facility.</p> <p>Allows future owner to establish use / take responsibility for building; transfers associated risks. (May still link with Castle developments.)</p> <p>Potential to generate significant capital income from sale, subject to clawback etc and timing.</p>	<p>Loss of creative industries centre and any spin off benefits for the local economy or community.</p> <p>Disruptions for existing tenants, although time should be available for managed closure and alternative workspace should be available.</p> <p>Likely short to medium term operational implications and difficulties, subject to reaction of current tenancy base, until such time the council is able to gain vacant possession.</p> <p>Building would be empty (or virtually so) for a period at least.</p> <p>No control over use of building, once sold.</p>	<p>Risk that clawback and covenant matters could not be managed satisfactorily, meaning that in worst case, it could take considerable time to dispose of building, or sale could result in little or no income being retained by Council. This would exacerbate the various financial, reputational and operational risks that exist whichever option is chosen.</p>

4.6 **Option 3: Seek redevelopment of the Storey to complement future redevelopment of Lancaster Castle**

4.6.1 Nothing would be ruled in or out under this option, as long as it fitted with wider regeneration aims and sound asset / financial management. It could still involve consideration of future disposal, or mixed use development. The two most important issues to note are:

- the Council could have active involvement or significant control or influence over future development to fit with its corporate priorities; but
- whilst this option would allow some time for sub-tenants to remain, this would be on an interim basis only, at least until the nature of future redevelopment was clearer. Although it is possible that future redevelopment could incorporate some workspace, it would be inadvisable to make this a requirement at this early stage.

Key Advantages	Disadvantages	Risks
<p>Would maximise regeneration opportunities linked to Castle development, with the Council determining the future of the building, working with other key stakeholders.</p> <p>Informed decisions could then be made in context of regeneration aims, and sound asset management and financial planning.</p> <p>Would still be opportunities for significant financial benefits, subject to clawback etc and timing.</p>	<p>Loss of existing creative industries centre over time.</p> <p>Disruptions for existing tenants, although time would be available to help manage this.</p> <p>Lengthens period of uncertainty over future use of building.</p> <p>Likely short to medium term operational implications and difficulties subject to reaction of current tenancy base, until such time the council is able to gain vacant possession.</p> <p>Building would be empty (or virtually so) for a period at least.</p>	<p>At a strategic level, there is some risk that an acceptable future alternative use of the building could not be agreed or secured and this would exacerbate the various substantial financial, reputational and operational risks that exist whichever option is chosen.</p> <p>Risk that clawback and covenant matters could not be managed satisfactorily, meaning that in worst case, it could take considerable time to take advantage of the opportunities arising from redevelopment of the Castle.</p>

5 Details of Consultation

- 5.1 Another meeting is to due to take place with sub-tenants prior to the Council meeting, to share this report. Sub-tenants have been asked (either collectively or individually) to put forward any statements they wish to make to Council, in order that Members can take these into account in their decision-making. Any such statements will be circulated prior to the meeting.

6 Officer Preferred Option

- 6.1 On balance and given the exceptional opportunities that redevelopment of the Castle presents, Option 3 is the Officer preferred option.
- 6.2 Ultimately the way forward comes down to priorities, some of which may conflict, but it may be useful for Council to consider the questions below in reaching a decision on its preferred direction:
- Is current use the best way of using the building in future?
 - How important is tourism development (linked to the Castle), when compared with other aspects of regeneration?
 - How important is capital income?
 - Is there other workspace available for creative industries?
 - How important is it for the Council to have control over or involvement in what happens to the building in future? Is it best placed to manage and resource any such input?

- What direction would be in the best interests of taxpayers, rather than any specific stakeholders?

7 Conclusion

7.1 In view of recent events, Council now needs to set out its preferred direction for the Storey Institute. In doing so, Council is advised to consider not just the existing use of the building, but wider regeneration prospects surrounding the future redevelopment of Lancaster Castle, as well as asset management and financial objectives. Undoubtedly there are many opportunities and risks surrounding the way forward.

RELATIONSHIP TO POLICY FRAMEWORK

The future of the Storey should be considered in context of the Council's regeneration priorities, as well as its core values of providing value for money, drawing on medium term financial and property strategies.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

It is considered that there is no such direct impact arising.

FINANCIAL IMPLICATIONS

The financial / value for money implications of options would be assessed and reported back in due course, prior to any firm decisions being taken.

In terms of potential sale proceeds, a full revaluation of the building will be undertaken as part of appraising Council's preferred way forward.

In developing the Creative Industries Centre, the Council received a total of around £3.5M of external funding from a number of organisations.

SECTION 151 OFFICER'S COMMENTS

The s151 Officer has contributed to this report.

LEGAL IMPLICATIONS

The Court upon application can discharge or modify a restrictive covenant. Under the legislation a covenant is obsolete, and will be removed where it is no longer possible for it to serve its original purpose, by changes in the character of the property, or the neighbourhood, or other circumstances of the case which the court may deem material.

The particular nature of the transfer of the Storey to Council would suggest that the land is held under the terms of a charitable trust and Counsel's opinion obtained some years ago advised that the trust cannot be dissolved and must be followed, unless there are grounds for applying for a cy-pres scheme as set out in section 13 of the Charities Act 1993. (A cy-pres scheme is created when the benefit of the trust are transferred to another property and releasing the incumbent property from the trust)

In these circumstances the process for removing the covenant are complex and would require specialist legal advice to establish whether such an application would succeed for

the purposes of the Council's proposals.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and her comments are incorporated in the report.

BACKGROUND PAPERS

Reports and Minutes of:

Cabinet 10 October 2006

Cabinet 24 October 2006

Cabinet 05 June 2007

Council 20 June 2007

Contact Officer: Mark Cullinan

Telephone: 01524 582011

E-mail: chiefexecutive@lancaster.gov.uk

Ref: CE/Committees/Council/12.09.12

- (1) That the Land Allocations Development Plan document includes a further option for consultation that asks the public if they would prefer to continue with the current policy detailed in the Core Strategy of urban concentration within existing urban boundaries, whereby new housing developments are carried out on brownfield sites.
- (2) That the Land Allocations Development Plan document also includes an option for consultation that asks the public whether we should allow sensitive small scale developments in rural villages where these would contribute to improving the long-term sustainability of that village.

An extensive period of public consultation will commence, provisionally, on Monday 22 October 2012 and conclude on Friday 14 December 2012.”

After a short debate, a vote was taken on Councillor Coates’ amendment. 21 Members voted for the motion, 26 against and 1 abstention. The amendment was lost.

A vote was then taken on the substantive motion, which was clearly carried.

Resolved:

- (1) That a Draft Local Plan for Lancaster District, comprising a Land Allocations Development Plan Document (DPD), Development Management (DPD) and an Area Action Plan for Morecambe (MAAP), be published and consulted upon.
- (2) That an extensive period of public consultation be commenced, provisionally, on Monday 22 October 2012 and conclude on Friday 14 December 2012.

67 STOREY INSTITUTE

(Councillor Dennison left the meeting at this point, having previously declared an interest.)

Members considered a report from the Chief Executive about the Storey Institute. As well as providing an update on the current position regarding the operation of the Storey, the report sought direction from the Council on the future use of the building.

The Chief Executive, Head of Resources and Head of Governance responded to a number of questions from Councillors.

Councillor Blamire proposed:

- (1) That the current position be noted.
- (2) That subject to the outcome of the liquidation process for SCIC Ltd and assuming that the headlease be forfeit, or otherwise terminated, Council's preferred direction for the Storey Institute is to seek to continue operating as a Creative Industries Centre, without excluding other options, in order to make the building sustainable.
- (3) That Officers be authorised to investigate the removal of the restrictive covenant and to develop proposals in support of (2) above.
- (4) That it be noted that future decisions regarding the Storey Institute will be taken by Cabinet, subject to them being in accordance with the direction set under (2) above

and the existing budget framework.

Councillor Hanson seconded the proposition.

Councillor Ashworth proposed an addendum to (4), which was accepted as a friendly amendment by Councillors Blamire and Hanson:

“but that any decision regarding the status of the building be brought to full Council, for example, if it were offered for sale.”

Councillor Hamilton-Cox proposed an addendum to (2), which was accepted as a friendly amendment by Councillors Blamire and Hanson:

- (2) That subject to the outcome of the liquidation process for SCIC Ltd and assuming that the headlease be forfeit, or otherwise terminated, Council's preferred direction for the Storey Institute is to seek to continue operating as a Creative Industries Centre, without excluding other options, in order to make the building sustainable and that the Council works productively with the tenants and other stakeholders, to achieve these ends.

Councillor Mumford proposed an amendment to (3), to replace the word “removal” with “details” which was accepted as a friendly amendment by the mover and seconder of the proposition:

- (3) That Officers be authorised to investigate the details of the restrictive covenant and to develop proposals in support of (2) above.

There was a short debate before a vote was taken on the proposition, which was clearly carried.

Resolved:

- (1) That the current position be noted.
- (2) That subject to the outcome of the liquidation process for SCIC Ltd and assuming that the headlease be forfeit, or otherwise terminated, Council's preferred direction for the Storey Institute is to seek to continue operating as a Creative Industries Centre, without excluding other options, in order to make the building sustainable and that the Council works productively with the tenants and other stakeholders, to achieve these ends.
- (3) That officers be authorised to investigate the details of the restrictive covenant and to develop proposals in support of (2) above.
- (4) That it be noted that future decisions regarding the Storey Institute will be taken by Cabinet, subject to them being in accordance with the direction set under (2) above and the existing budget framework but that any decision regarding the status of the building be brought to full Council, for example, if it were offered for sale.

(The meeting adjourned at 4.35pm for ten minutes, in accordance with Council procedure rule 11, reconvening at 4.45pm.)

68 EXCLUSION OF PRESS AND PUBLIC

The Mayor reminded Council that it had been recommended to exclude the press and

CABINET

**WASTE COLLECTION- Cost Sharing
Oct 9th 2012**

Report of Head of Environmental Services

PURPOSE OF REPORT			
To seek Cabinet's agreement for entry into a revised cost sharing agreement with the County Council from April 1 st 2013.			
Key Decision	X	Non-Key Decision	
		Officer referral	X
Date Included in Forward Plan	26 th Sept 2012		
This report is public			

RECOMMENDATIONS OF HEAD OF ENVIRONMENTAL SERVICES

- (1) That Lancaster City Council agrees to entry into the revised cost sharing agreement with the County Council from April 1st 2013.
- (2) That Lancaster City Council indicates that it's preference is to have the contribution from the cost sharing agreement spread evenly over the 5 year period (Sub-option 1a).
- (3) That the Head of Environmental Services informs County of the above and is delegated to agree the precise operational details of the agreement.
- (4) That budget projections are updated accordingly

1.0 Introduction

- 1.1 The Lancashire Waste Partnership (LWP) consists of the Lancashire County Council (waste disposal authority), twelve District Council (waste collection authorities) and the two unitary authorities. Through a jointly agreed waste strategy the LWP has set ambitious targets for managing household waste produced within the County of Lancashire.
- 1.2 The Council's corporate plan includes as an aim delivery of the objectives of the Lancashire Waste Strategy 2008-2020. This strategy contains challenging targets for reduction, reuse, recycling and composting of household waste
- 1.3 In terms of contribution towards implementation of this strategy Lancaster City Council has over a period of years rolled out waste collection arrangements that

contribute significantly to the aims of the LWP waste strategy.

- 1.4 In 2002/3 9.7% of all household waste was recycled / reused / composted. In 2011/12 this figure had risen 41.6%. There is still scope for this figure to rise much further within existing arrangements.
- 1.5 In order to achieve this the City Council has invested significantly. Compared with other similar Authorities the City Council performance is in the top quartile for its low cost of waste collection / recycling per household (based on APSE Performance Networks comparative data).
- 1.6 The required investment has come through a variety of sources. Particularly relevant to this report is the contribution Lancashire County Council provides through its cost sharing agreement.
- 1.7 The current cost sharing agreement is due to end in 2013/14. Under the agreement the County Council provides an amount for every household that is provided with the waste collection / recycling arrangements that the City Council currently has in place. The value of this contribution to Lancaster City Council in 2012/13 is £1,283,600.
- 1.8 In the years since the introduction of the cost sharing agreement the economic situation has changed considerably. Local Authorities are under huge pressure to reduce budgets. In 2012/13 the County Council expects to spend across the County over £94million on waste recovery / disposal. Lancaster City Council expects to spend £3.1million on waste collection.
- 1.9 Through the LWP the County Council have discussed ways of providing revised options for cost sharing that meet the County Council's budget arrangements but also attempt to mitigate the financial impact on District Councils.
- 1.10 An offer has now been formally received from the County Council.

2.0 Proposal Details

- 2.1 The County Council is essentially proposing the following-
- 2.2 **PROPOSAL-** To accept a revised cost sharing agreement from 2012/13 (one year ahead of the termination of the current arrangement). This agreement would provide the City Council with a contribution of £6,099,594 over a 5 year period from April 2013. The amount also includes payments for loss of recycling income as are currently provided. The amount offered is less than the amount offered under the current agreement. Two sub-options are presented to provide choice as to the contribution is received. Sub- option 1a sees the contribution spread equally over the over the 5 year period. In 2012 /13 this option would mean that approximately £104,000 extra savings would have to be made by the Council. Sub- option 1b sees the contribution front loaded in profile. Based on the financial appraisal (see financial implications) it appears that Sub-option 1a would be the easier option to manage.
- 2.3 Acceptance of the cost sharing agreement requires a commitment to provide at least 90% of households with three- stream waste collection arrangements (which Lancaster City Council has already achieved). Increasing of collection frequencies of residual waste (grey bins) to less than fortnightly would not be acceptable. If the City Council wishes to accept the County Council have

requested for budgeting purposes that we inform them by October 31st.

2.4 If the City Council does not wish to accept the revised offer it would remain within the current cost sharing agreement until its end in 2013/14. At this point there is no indication that any further financial support would be provided by the County Council. In theory this would allow Lancaster City Council greater freedom as to collection arrangements eg reintroduction of weekly grey bin collections. In practice the combined cost of the loss of cost sharing (£1.2million / year) and the increased cost of reintroduction of weekly bin collections (£1- 1.5 million / year) would make this option unrealistic from a financial perspective. It would also be contrary to the aims of the Council's corporate plan.

3.0 Details of Consultation

3.1 Following discussions through the LWP. The County Council have formally written to all Districts and requested a view on each Districts preferred option by 31st October 2012. This will allow for certainty in terms of financial planning.

4.0 Options and Options Analysis (including risk assessment)

4.1 Essentially there are two choices-

- Accept the revised cost sharing agreement
- Not accept the revised cost sharing agreement

4.2 For the reasons outlined above the only realistic option is to accept the County Council's proposal of entry into a revised cost sharing agreement from April 1st 2013. The most preferable sub-option from both an operational and financial perspective is to accept the contribution spread equally over the 5 year period of the agreement (Sub – option 1a).

5.0 Officer Preferred Option (and comments)

5.1 As set out above.

6.0 Conclusion

6.1 The report seeks Cabinet's approval to enter into a revised cost sharing agreement from April 1st 2013.

RELATIONSHIP TO POLICY FRAMEWORK
As set out in the report
CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)
Waste collection / recycling is provided to all households in the District and is a statutory service

LEGAL IMPLICATIONS

None

FINANCIAL IMPLICATIONS

The 2012/13 General Fund Budget as approved by Council on 29th February 2012 includes the following amounts in relation to cost sharing income :-

2012/13	£1,284K
2013/14	£1,323K
2014/15	£1,366K

Under the existing arrangements, the annual amount is currently subject to inflationary increases in line with the Retail Price Index forecast (RPI) at the time the budget is set. County Council's proposed contribution of £6,099,594 over the five years commencing 1st April 2013 is a flat amount and as such will not be subject to any inflationary increase. Therefore, the will place additional pressure on the general fund budget. The following table illustrates the financial impact (where known) of each of the options and for the purpose of the exercise inflation has been assumed to continue in future years of the approved budget.

	Year 1	Year 2	Year 3	Year 4	Year 5
	2013/14	2014/15	2015/16	2016/17	2017/18
	£K	£K	£K	£K	£K
Latest Approved Budget	1,323	1,366	1,409	1,452	1,495
ACCEPT REVISED COST SHARING AGREEMENT					
<u>Sub- Option 1a (spread equal)</u>					
Proposed Contribution	1,220	1,220	1,220	1,220	1,220
Budgetary Shortfall	103	146	189	232	275
<u>Sub -Option 1b (front loaded)</u>					
Proposed Contribution	1,267	1,244	1,220	1,196	1,173
Budgetary Shortfall	56	122	189	256	322
DON'T ACCEPT REVISED COST SHARING AGREEMENT					
Proposed Contribution	1,323	??	??	??	??
Budgetary Shortfall	0	??	??	??	??

Whilst the table illustrates option 1b is more attractive than option 1a in the short term, the later years see a decrease to the contribution. Over the duration of the five years the shortfall is identical and due to its consistent nature, option 1a would be easier to manage and assist officers in more effective budgetary planning.

Non acceptance of the revised cost sharing agreement sees no budgetary shortfall in 2013/14 however the future implications of not accepting are unquantifiable at this point in time but it is generally accepted that this would have a detrimental impact both operationally and financially.

Whichever option Cabinet decides to pursue, the associated budgets will be updated as part of the forthcoming budget process.

OTHER RESOURCE IMPLICATIONS

Human Resources:

None

Information Services:

None

Property:

None

Open Spaces:

None

SECTION 151 OFFICER'S COMMENTS

The report sets out the position regarding financial risk associated with accepting or not accepting the revised cost sharing proposals. Not accepting the proposal would provide continuity of the current agreement and existing funding levels for a further year, but it provides no certainty for the funding position beyond 2013/14. Accepting the proposals will require the Council to consider potential savings and efficiencies as part of the forthcoming MTFs and budget review, but this option provides a clearer and less risky picture for the future.

Within the overall 5 year proposals, instalment sub-option 1a provides for greater stability in year-on-year operational and financial planning.

MONITORING OFFICER'S COMMENTS

The deputy monitoring officer has been consulted and has no observations to make on this report.

BACKGROUND PAPERS

Letter to Chief Executive from County Council 19th Sept 2012

Contact Officer: Mark Davies

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Ref: