

**BUDGET AND
PERFORMANCE PANEL**

4.30 P.M.

25TH NOVEMBER 2008

PRESENT: Councillors Roger Sherlock (Chairman), Tina Clifford, Chris Coates (substitute for John Whitelegg), Keran Farrow, Sarah Fishwick, Mike Greenall, Ian McCulloch and Paul Woodruff (substitute for Keith Sowden)

Apologies for Absence:

Councillors John Whitelegg (Vice-Chairman) and Keith Sowden

Officers in Attendance:

Nadine Muschamp	Head of Financial Services and Section 151 Officer
Lucie Slight	Assistant Accountant
David Owen	Head of Cultural Services (for Minute Nos. 31 to 34 only)
Jeanette Cawley	Customer Service Project Manager (for Minute No. 35)
Stephen Metcalfe	Principal Democratic Support Officer
Liz Bateson	Senior Democratic Support Officer
Jane Glenton	Democratic Support Officer

Also in Attendance:

Joe Sumsion	Chief Executive of the Dukes (for Minute Nos. 31 to 34 only)
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31 DECLARATION OF INTERESTS

There were no declarations of interest.

32 MINUTES

The Minutes of the meetings held on 9th and 16th September 2008 were signed by the Chairman as correct records.

33 ITEMS OF URGENT BUSINESS AUTHORISED BY THE CHAIRMAN

There were no items of urgent business.

34 DUKES THEATRE

The Panel received the report of the Head of Cultural Services, to which was appended monitoring and evaluation data on the demography of the users of the Dukes Theatre, which had been requested by the Panel on the 24th April 2008 (Minute No. 61/2 (08/09) refers).

In a detailed presentation, which built on the statistical details in the report, the Chief Executive of the Dukes told Members that the Dukes theatre's aim was to be recognised as Lancashire's premier theatre and cultural centre, which produced extraordinary theatre and acted as a leading resource for film and digital arts, dance, music and the performing arts.

In acknowledgement of the power the arts had to change people's lives for the better, the theatre sought to be inclusive in its outlook and involve local people, who would feed into the programme of events. Furthermore, formal partnership working was being undertaken with a number of organisations. For example, the University of the Third Age (U3A), whose aims were the education of retired members of the community, were participatory and desirous of influencing the cinema programme.

Members noted the Dukes' three performance spaces, namely

- *DT3*, which was an education centre situated further up Moor Lane, developed with children and the under 25s in mind, presenting a year round programme of productions and the opportunity to take part in original work through a partnership between the Dukes and Lancashire County Council Young People's Service;
- *The Round*, a 240 seat theatre space in the round;
- *The Rake* a 313 seat auditorium with stadium style seating, which was also used for cinema screenings.

It was reported that there were five means of income for the Dukes, namely miscellaneous productions, the promenade productions in Williamson Park, Christmas productions, visiting productions and the cinema. The promenade productions in the Park were shared productions, which benefited both the Dukes and Williamson Park Limited, and attracted audiences from beyond the area and formed their cultural perception of Lancaster district.

In addition to the four annual productions held at the Dukes and the summer promenade show in Williamson Park, an extensive programme of touring drama, events and participatory projects through the Creative Learning Department was undertaken, which involved a wide range of audiences, participants and partners, and a significant number of events was available at any one time.

The Panel was advised that further qualitative research was needed on difficult to define specifics, such as the distance audiences would travel to see productions and audience make-up.

Resolved:

That the report be noted.

The Head of Cultural Services and the Chief Executive of the Dukes left the meeting at this point.

The Customer Service Project Manager joined the meeting at this point.

35 MYSTERY SHOPPER EXERCISE

The Panel received the report of the Head of Information & Customer Services on the recent Mystery Shopping exercise. The report highlighted changes which had been made since the date of the last comprehensive exercise in 2005, when an action plan had been drawn up to improve many aspects of customer services.

In a Powerpoint presentation, the Customer Services Project Manager advised Members that the City Council had commissioned an external company to carry out the exercise to professionally assess the strengths and weaknesses and give an unbiased opinion of the customer facing offices across the Council in the Town Halls in Lancaster and Morecambe and in Council Housing, Salt Ayre and the Tourism Offices.

The survey had been carried out using a mix of 3 different query types, namely face to face, telephone and website, using a substantial number of site visits and queries and assessing a number of aspects, on a 1 to 10 points scoring system.

Members noted that there had been a noticeable improvement in customer service across the Council since the previous survey and that the overall results were positive. Customer feedback showed that the Council had exceeded expectations in some areas. However, some areas had received low scores, such as external lighting and parking facilities, and improvement was needed.

In summary, the overall ratings regarding face to face handling of enquiries were good and significantly exceeded expectations. Handling of telephone queries had exceeded expectations in most cases and had at least been met in every case. Users had liked the website and had been surprised at the amount of information available and the ease of access.

It was reported that, as a result of the findings, there would be detailed feedback to Services and November briefings for staff at Morecambe Town Hall on 24th November 2008 and Lancaster Town Hall on 27th November 2008. Further, officers would draw up an action plan to ensure that actions were placed in appropriate business plans and that regular reviews of customer satisfaction, in line with national standards, would continue.

Resolved:

That the report be noted.

The Customer Service Project Manager left the meeting at this point.

36 RECENT REPORTS TO CABINET - MEDIUM TERM FINANCIAL STRATEGY REVIEW AND STAR CHAMBER

The Panel received reports that had recently been considered by Cabinet.

Firstly, Members considered the report of the Head of Financial Services on the Medium Term Financial Strategy Review, which provided updated financial projections for future years based on information currently available, so that the appropriateness of existing targets for Council Tax increases could be reviewed by Cabinet and recommendations made to Council, as appropriate.

The Head of Financial Services advised Members that major financial issues had arisen recently which had affected the Council's financial outlook and resulted in uncertainty, namely the Icelandic Investments position and Concessionary Travel. Other issues, such as rises in energy and fuel prices and the impending Fair Pay award, had also impacted. These had caused a significant deterioration in budget prospects.

Regarding capital, at its meeting on the 19th November, the Council had resolved that the 2008/09 Capital Programme funding be updated to provide a £1.4M underlying increase in unsupported borrowing, on the basis that this be 'repaid' in 2009/10, and that the updated Capital Programme, as set out at Appendix A to the report, be approved (Minute No. 71 2008/09 refers). Unsupported borrowing would allow the Council to borrow to a level it felt was affordable outside of Central Government approvals for borrowing.

Regarding investments, it was reported that, at present, projections only provided for loss of some interest from the time that the Icelandic banks went into receivership.

At its meeting on the 11th November, Cabinet had noted the revised financial projections and the assumptions underpinning them; and had resolved to recommend to Council that the existing Council Tax target increase be retained at no more than 4% for future years, but that this be reviewed as the budget developed. The Government had a reserve power to cap the budget if spending decisions led to an excessive Council Tax.

Cabinet had also recommended that actions be taken in response to the deterioration in the financial outlook and in order to take forward the setting of a balanced revenue budget for future years, including progression of the sale of land at South Lancaster and current negotiations regarding Lancaster Market, bringing forward proposals for the future use of the Auction Mart site as an interceptor car park and progressing the Storey Institute Creative Industries Centre to operation that required little or no revenue subsidy from the City Council.

Members were advised that, in addition to the Icelandic banking collapse, the Concessionary Travel scheme, which had been introduced for anyone over the age of 60 or the eligible disabled, entitled free off-peak local bus travel within the local authority area, had financial implications. Lancashire authorities had agreed, in principle, to enter into pooling arrangements to help spread the costs and risks, but the agreement had not yet been finalised. Under the arrangement, councils would move to being charged the actual share of concessionary travel costs, unlike the present estimates on a phased basis over the next three years. Information released showed that the extra net costs facing the Council in this area were between £129K and £243K, as at the end of July, allowing for using £150K set aside in the Concessionary Travel Reserve and assuming that the pooling agreement would be implemented, although it was noted that a number of other councils were reviewing their position.

Secondly, Members considered the report of the Corporate Director (Finance and Performance), which gave an update on the Star Chamber meetings held since the last report to Cabinet on 2nd September 2008, and the action notes appended to the report.

The action notes considered:

- 'Every Penny Counts' campaign, which had been launched in October.
- Budget Update and Future Progress, the new process for bringing forward efficiency and savings options, with directors arranging meetings with Service

Heads and Cabinet Members to progress options for efficiencies, savings and growth.

Resolved:

That the reports be noted.

Councillors Clifford and Fishwick left the meeting at this point.

37 REPORT TO AUDIT COMMITTEE - REVIEW OF INVESTMENTS IN ICELANDIC INSTITUTIONS

The Panel received the report of the Head of Financial Services, which had been presented to Audit Committee to update Members on the Icelandic Bank situation and the work that the LGA had been doing over the last three weeks, together with the presentation notes of Butlers, the City Council's Treasury Consultants, detailing the company's role, the lead-up to the Icelandic banks losing liquidity and the Council's position.

The Head of Financial Services reported that the Council currently had investments totalling £6M placed with three separate Icelandic Banks, two of which were 'forward deals', where contractual obligations were made at the trade date to place money with the institutions at later dates.

Decisions to take out forward deals were based on normal investment criteria, taking into account a longer-term view. The contractual agreements had been entered into in-line with the Council's investment principles and objectives, as set out in the Council's Investment Strategy and the CIPFA Code of Practice on Treasury Management.

It was noted that there was more potential risk attached to forward deals and longer-term investments because of the timescales involved, through more scope for ratings changes. However, the credit ratings used were such that a minor downgrading should not affect the full receipt of principal and interest, and provision for this was contained in the Council's Investment Strategy.

It was reported that the Council would generally hold a mix of fixed term, short dated investments, longer dated investments, forward deals and monies in 'call accounts', where deposits could be recalled at any time, depending on cash flow needs, interest rate prospects and budgetary considerations.

The main principles governing the Council's investment criteria were the security and liquidity of investments before yield, and the yield or return on investment. The security of investments was managed through the ratings attached to the counterparties involved. There were three main agencies to manage the credit ratings, namely Fitch, Moody's and Standard & Poor's, referred to as Fitch ratings in the Council's Investment Strategy.

Concerns had been raised regarding one of the investments in the Kaupthing, Singer and Friedlander (KSF) bank, which had been traded on 15th May 2007, with the Council entering into a contractual obligation to transfer £2M to the bank on 16th May 2008. On 9th May 2008, the bank's credit ratings had fallen to just below those required under the

Investment Strategy and it was removed from the Council's Counterparty list so that new investments could not be placed with it.

Members were advised, however, that the Council had an existing contractual commitment to transfer the £2M, and advice was sought from Butlers Treasury Consultants, who confirmed the contractual obligation. In view of the relatively minor reduction in ratings, the view then was that there was no significant risk to the Council, and the investment was placed.

At the time, there was much speculation in the press and media, but the Council's Investment Strategy placed reliance on the credit ratings from the agencies, based on their objective assessments of counterparties and factoring the results into their ratings. There was no information to warrant breaching the investment contract with KSF. The bank was expected to continue to trade and would have taken legal action against the Council had the forward deal not been placed. Further, the Council's reputation had to be considered so that it was in a position of trust with other counterparties in order to be able to place investments and gain favourable rates.

It was reported that, on 30th September, KSF's ratings had plummeted and it failed shortly afterwards. Given the contractual position regarding investments and the relatively minor changes in credit ratings at the time, it was felt that no further actions could have been taken other than to place the £2M with KSF.

In terms of recovery action, the LGA was working with local authorities and it was hoped that more information would be available within the next few weeks, together with advice on how local authorities should approach their budget setting. The Council would submit a bid to the Government's Capitalisation bidding round to allow any losses to be spread over a number of years.

Members were informed that quarterly monitoring reports of treasury management were presented to the Performance Review Team (PRT) meetings and an annual report to Full Council via Cabinet. An update on the investment position was included in Financial Services' Quarter 1 PRT. The Medium Term Financial Strategy would be continually reviewed and the impact of Icelandic investments would be included within those updates.

The resolutions of Audit Committee were also reported, namely:

- (1) That the report be noted.
- (2) That a report be requested regarding any future changes in investment policy.
- (3) That an update report be requested from Cabinet to each meeting of Full Council regarding the Icelandic investments situation.

Resolved:

- (1) That the report be noted.
- (2) That any proposed changes in Investment Policy be reported to Budget and Performance Panel.

38 UPDATED WORK PROGRAMME

The Panel noted updates in the Work Programme and the items that would be considered at its meeting on the 27th January 2009, namely the Budget and Policy Framework and the Second Quarter Reports from the Performance Review Team.

The Head of Financial Services reported that the Treasury Management Framework would be brought to the Panel's meeting on 24th February 2008 for consideration and comment.

Resolved:

That the report be noted.

Chairman

(The meeting ended at 6.38 p.m.)

**Any queries regarding these Minutes, please contact
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