



Committee: BUDGET AND PERFORMANCE PANEL

Date: TUESDAY, 25TH NOVEMBER 2008

Venue: LANCASTER TOWN HALL

Time: 4.30 P.M.

Councillors are reminded that as Members of Overview and Scrutiny they may not be subjected to the Party Whip, which is prohibited under the Lancaster City Council Constitution.

A G E N D A

1. Apologies for Absence

2. Declaration of Interests

3. Minutes

Minutes of the Meetings held on 9th and 16th September 2008 (previously circulated)

4. Items of Urgent Business authorised by the Chairman

5. Dukes Theatre (Pages 1 - 5)

Report of Head of Cultural Services

6. Mystery Shopper Exercise (Pages 6 - 7)

Report of Head of Information & Customer Services

7. Recent Reports to Cabinet - Medium Term Financial Strategy Review and Star Chamber (Pages 8 - 28)

Reports of Head of Financial Services and Corporate Director (Finance and Performance)

8. Report to Audit Committee - Review of Investments in Icelandic Institutions (Pages 29 - 60)

Report of Head of Financial Services

9. Updated Work Programme (Page 61)

Report of Head of Democratic Services

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

Councillors Roger Sherlock (Chairman), John Whitelegg (Vice-Chairman), Tina Clifford, Jean Dent, Keran Farrow, Sarah Fishwick, Mike Greenall, Stuart Langhorn and Ian McCulloch

(ii) Substitute Membership

Councillors Chris Coates, Roger Dennison, Rebekah Gerrard, Emily Heath, Janie Kirkman, Karen Leytham, Roger Plumb and Sylvia Rogerson

(iii) Queries regarding this Agenda

Please contact Jane Glenton, Democratic Services – telephone (01524) 582068 or email JGlenton@lancaster.gov.uk.

(iv) Changes to Membership, substitutions or apologies

Please contact Members' Secretary, telephone 582170, or alternatively email memberservices@lancaster.gov.uk.

MARK CULLINAN,
CHIEF EXECUTIVE,
TOWN HALL,
DALTON SQUARE,
LANCASTER LA1 1PJ

Published on Monday, 17th November 2008

BUDGET & PERFORMANCE PANEL**25th November 2008****Dukes Theatre****Report of the Head of Cultural Services****PURPOSE OF REPORT**

To provide the Panel with a monitoring and evaluation of the demographic data of the users of the Dukes Theatre.

This report is public

RECOMMENDATIONS

(1) That the Panel note the report.

1.0 Introduction

1.1 At the meeting of the Budget and Performance Panel, held on the 24th April 2008, Members requested:

“That monitoring and evaluation of the demographic data of the users of the Dukes Theatre be produced and forwarded for the Panel's consideration in 6 months time”.

Minute 61/2 [08/09] refers.

1.2 As requested, that information is contained within Appendix A of this report. Both the Head of Cultural Services, and Mr Joe Sumsion, the Chief Executive of the Dukes Theatre, will be in attendance.

Report on Dukes Audiences and Activity for Lancaster City Council Budget and Performance Panel

Overview/Context

The Dukes is a producing theatre and venue specialising in original work. It houses three performance spaces – The Rake (end on, 313 capacity), The Round (newly opened auditoria, in the round, 230 capacity), DT3 (dedicated young people’s space, flexible seating, capacity of 120). The home-produced work includes 4 annual productions in the venue and a summer promenade show in Williamson Park.

The Dukes also presents a programme of touring drama, dance, family events, comedy, music and independent cinema and a wide range of participatory projects and events through the Creative Learning department. The Dukes has a strong working relationship with Lancashire County Council Young People’s Service, allowing the company to connect and work with large numbers of young people.

In the 2007-2008 financial year (which had a reduced output due to the major organisational change which took place at the Dukes) the company delivered the following audiences and participants:

Audience for live performances:	40,206
Cinema audience:	26,504
Total audiences:	66,710

Participants

Formal education:	2,333
Informal education activity:	10,385
Total participants:	12,718

Core funding for the year 2008-2009 comprises the following grants:

Arts Council England, North West	£260,700
Lancaster City Council	£151,800 + £13,500 in lieu of rent
Lancashire County Council	£175,563 (July 2008 – June 2009)
UK Film Council	£18,000

Who are our audiences and participants?

In addition to the number of people we work with, we want to give a snapshot of the range of audiences, participants and partners connecting with the Dukes, also feedback from others, during the period November 2007 – October 2008.

Full professional productions

The Twits (Christmas 2007)

- Christmas productions at The Dukes usually see the highest family attendance – The Twits was suitable for ages 4 plus which added an extra level of accessibility. The Twits surpassed expectation with 3,050 children’s tickets sold (excluding schools’ tickets).
- We sold 4,837 tickets to schools, this represents around 38% of overall sales;

- A large portion of bookers were from within Lancaster (35.2%) and Morecambe (11.5%)

Beauty and the Beast (summer 2008)

- 16% (1,670) of bookers visited from outside the Lancashire and South Cumbria region. These included large numbers of foreign visitors and UK visitors travelling great distances (from England's South Coast to the north of Scotland)
- 34% of the audience came from within the Lancaster and Morecambe area, a further 50% from the rest of the Lancashire and South Cumbria region
- The production received significant regional and national press coverage with excellent reviews in The Guardian and The Observer.

The Bomb

- 333 school parties and students attended, 24% of overall sales
- 4 school and university parties (from Lancaster and Heysham) took part in full day page-to-stage workshops in association with The Bomb
- The production attracted other groups, including church groups and older people
- The production was critically well received, including an excellent review in The Daily Telegraph, and went on to tour the UK (with our co-producing partner) including performances in London, Belfast and Keswick.

DT3/Creative Learning Projects

Within this period there was a wide range of projects delivered at DT3, our dedicated young people's space. These projects encouraged local young people to express themselves through the arts, and included:

- Youth Theatre Groups. 110 young people meeting weekly across five groups, including 2 full productions and a number of 'try-out' events
- The Fallout Project. A large scale urban music and film project delivered with Lancashire County Council Young People's Service, the police and youth offending teams. Fallout encouraged some of the most hard-to-reach young people from the district (including groups from Slyne, The Marsh, Morecambe West End and Heysham) to engage with issues of peace and restorative justice. The young people worked with skilled arts practitioners and created short films, rap songs and a final celebration 'club night', attended by over 150 young people
- Beaumont College Film Festival. Offering students with complex needs from Beaumont college the opportunity to present and view their films in a professional venue
- Barnbox Musicians Collective. Offering support, career advice and opportunities to young musicians connected to Lancaster University looking to 'break through' into the music business.

Cinema

In addition to our regular programme of screenings we have worked with a range of partners including:

- Lancaster University American Studies Department: Gangsters in Film
- Storey Gallery: Storeys About Lancaster
As part of INSIDE OUT, a series of Storey projects taking place outside the gallery, the Dukes screened films set in Lancaster, including *Ambrosia*

Connection, created by Storey Artist in Residence Jane Chavez Dawson, and Colonial Amusements, with post film talk by the director.

- Institute for Advanced Studies, Lancaster University. Public Film Discussions
- Lancaster Holocaust Memorial Week. Representations of the Holocaust
- University of Cumbria Film Season
- Warwick University: Iranian Cinema Season
- Carnforth Station: David Lean Centenary Celebrations

Artists' Exhibitions

The Dukes gallery was used to display the work of a range of local artists:

- Nov/Dec 07 Dukes rehearsal photographs – George Coupe
- Jan/Feb 08 University of Cumbria Fine Arts Students
- March/Apr 08 Graham Lowe pastel paintings
- April/May 08 LitFest Midland book exhibition
- May/June 08 'Trailblazer' – work by the artists of the Lunesdale Studio Trail
- June/July 08 'I am an American' - Video Portraits of Post 9-11 US citizens
- July/Aug 08 Leon Gurevitch photography
- Aug/Sept 08 'The Jazz Festival' – David Herrod's photographs
- Sept/Oct 08 'North from South' - Simon Nixon's paintings
- Oct/Nov 08 'Past the Bubble Line' - Jon Nixon's photographs

Music/Chill Out Tuesdays.

From September 2008 we have hosted free gigs on a Tuesday evening in the bar. The artists have all been locally based but have covered a range of ages and have performed in a variety of styles, from the pop of Lytham's 17 year old Joni Fuller to the folk/rock of The Hampton Attic Band, with their "150 years of gig experience". The success of the project is spreading by word of mouth with musicians contacting us directly to play here through our dedicated myspace site www.myspace.com/dukesmusiclancaaster.

We have also programmed paying gigs in The Round by local bands Lava and Heroes of She, bringing new audiences to the venue.

Partnership working

The Dukes has a number of longstanding relationships with local organisations who used the Dukes facilities within this period to deliver their work, including:

- Litfest – Lancaster's Literature Festival, which this year included a performance from Poet Laureate Andrew Motion
- More Music in Morecambe – delivering projects such as Clapping Song for the very young
- University of Cumbria – using The Round for two weeks, offering their 3rd Year Drama students the opportunity to work and present productions in a professional theatre context

A large number of local organisations made use of our spaces, either hiring or using the spaces for free, including:

- Lancaster Writers Group
- Storey Institute
- Folly

- North West Film Exhibitors Consortium
- Audience Alliance
- Grow Creative
- Lanternhouse
- North West Development Agency
- One Planet Festival
- University of Lancaster
- Lancaster Play Reading Group
- Lancaster and Morecambe University of the Third Age
- Lancashire County Council
- LEBP Teachers Forum
- Lancaster City Council Key Cultural Partners Meeting

New Partnership working

During this period the Dukes has begun the process of developing more formal partnership working with a number of organisations, including:

- Ludus Dance. Working together and combining our skills and assets, we plan to develop Lancaster as a nationally recognised centre for Dance Theatre, to include working with young dancers from across Lancashire
- Williamson Park. A planned formal partnership which strengthens the annual promenade productions and explores joint working on promoting the Dukes, the Park and Lancaster's cultural offer
- Lanternhouse International, Ulverston. Working with colleagues to provide exhibition and performance opportunities for companies creating new work at Lanterhouse's Creation Centre
- The Nuffield Theatre. We are currently working with the Nuffield on a bid to attract new DCMS funding to the region to encourage under 26s to visit our two theatres free of charge
- Lancaster and Morecambe University of the 3rd Age. Hosting this group's monthly meetings with the aim of encouraging this group to become regular audiences and contributors to Dukes activities.

Ambitions

Building on past successes, our aim is to be recognised as Lancashire's premier theatre and cultural centre. We aim to produce extraordinary theatre and act as a leading resource for film and digital arts, dance, music and the performing arts.

We aim to be inclusive in our outlook; we understand the power of the arts to engage and reflect the wide range of communities we serve. At its best, we believe that theatre, film and the performing arts have the power to change people's lives for the better.

*Joe Sumsion,
Director,
November 2008*

BUDGET AND PERFORMANCE PANEL**Mystery Shopper Exercise****25th November 2008****Report of Head of Information & Customer Services****PURPOSE OF REPORT**

To report on the recent Mystery Shopping exercise which highlights changes since 2005.

This report is public

RECOMMENDATIONS

(1) That the report be noted.

1. Introduction

The authority recently commissioned an exercise known as a mystery shop whereby an external company professionally assessed our customer facing offices across the Council. The exercise covered the face to face centres in the Town Halls in Lancaster and Morecambe, as well as other customer facing sites in Council Housing, Salt Ayre, and the tourism offices. The exercise also covered the telephone service and Council website using a number of researchers to see how well these channels dealt with certain common queries.

2. Background

The Council last undertook such a comprehensive exercise in 2005. The results of that survey were disappointing and an action plan was drawn up to improve many aspects of customer services based upon the results of that survey. Such items as uniforms, greeting, customer service training etc. were reviewed and changed.

3. Key Results

Some of the key results are summarised below – the exercise is purely based around the individual researcher's experience matched against their expectations of how an organisation should appear.

External appearance – the external appearance of most sites visited scored above expectation.

Internal appearance of sites visited all but one scored above expectation

The appearance of staff, compared to expectations, was above average with the exception of three sites – this was in relation to ‘no name badges being worn’, staff dressed too casually or without uniform.

The initial greeting exceeded expectations in all areas – particularly Salt Ayre who scored the highest in this area.

Enquiry handling exceeded expectations in all areas except one. This was because the customer did not feel that the interaction was friendly or helpful.

Telephone– 78% said that it met expectations. Planning, Council Tax exceeded expectations. The majority of callers felt that their enquiry was dealt with above their expectation.

Internet – 38% thought the website met their expectations. The main issues focussed around not being able to locate the information they needed

Further details of the findings will be presented at the meeting and fed back to staff via the corporate staff briefing process.

4. Conclusion

There has been a noticeable improvement in customer service across the Council since the last survey. There are still some areas for improvement and officers will draw up an action plan and ensure that actions are placed in appropriate business plans. Regular reviews of customer satisfaction in line with national standards will continue.

SECTION 151 OFFICER'S COMMENTS	
The Section 151 Officer has been consulted and has no further comments.	
MONITORING OFFICER'S COMMENTS	
The Monitoring Officer has been consulted and has no further comments.	
BACKGROUND PAPERS	Contact Officer: Jane Alder
None	Telephone: 01524 582097
	E-mail: jallder@lancaster.gov.uk
	Ref: B & PP 04

BUDGET AND PERFORMANCE PANEL**Medium Term Financial Strategy Review****25th November 2008****Report of Head of Financial Services****PURPOSE OF REPORT**

To provide updated financial projections for future years based on information currently available, in order that Cabinet can review the appropriateness of existing targets for Council Tax increases and make recommendations on to Council as appropriate.

This report is public.

RECOMMENDATIONS OF COUNCILLOR MACE TO FOLLOW

The officer options are set out at paragraphs 7 and 8 of the report

1 Introduction

- 1.1 The Council's Medium Term Financial Strategy (MTFS) sets out projections for future years' net revenue spending as compared with the Council's targets for Council Tax. It therefore provides a financial basis on which Members can consider and review what changes need to be made to the level and scope of services provided, if the Council's aims with regard to restricting Council Tax increases in future years are to be met.
- 1.2 Clearly the financial projections are based on many assumptions and estimates that need to be reviewed and updated regularly; the timetable for this is set out in the Strategy document itself. This report provides information on the first formal review to be undertaken during 2008/09. This is later than originally planned, and initially this was to allow for the latest proposals regarding food waste recycling to be incorporated. Since the last Cabinet meeting other major financial issues have arisen, however, most notably the Icelandic Investments position and Concessionary Travel. Outline updates on these are also provided.
- 1.3 Cabinet is requested to consider all the information in this report and indicate whether, for the time being:
 - target increases for future years' Council Tax should remain at no more than 4% for future years.
- 1.4 Recommendations would then be referred on to Council and form the initial basis for the budget and planning exercise. **There will still be the opportunity to update the projections and make changes to Council Tax targets later in the exercise,**

however. This is a key point, as there is much uncertainty regarding the financial outlook at present.

In considering the report, Cabinet is asked to note that currently the projections cover the period up to 2010/11 but the forthcoming detailed budget preparation will move them forward another year, i.e. covering 2011/12 also.

2 Outcome of Review

2.1 Work has been undertaken to pull together various financial issues that have arisen since the Budget was approved back in February of this year. These may come from many sources, such as:

- Member approvals
- Last year's outturn and this year's financial monitoring
- Economic or other external factors (the 'credit crunch', interest rates, inflation / pay awards etc.)
- Other base budget adjustments (either known or potential, e.g. linked to changes in demand)
- Other issues under consideration (e.g. through Star Chamber)
- Government's Spending Plans and any proposals for changes to the Local Government Finance system.

A schedule of the actual and potential budget changes quantified to date is included at **Appendix A** with a summary provided overleaf. Overall there has been a significant deterioration in the position and this is based on some fairly broad assumptions, without any objective assessment or sensitivity analysis of certain key financial risks. It is highlighted, therefore, that the projections have even more risk attached to them than might normally be the case. On balance, it is felt that there is more chance of the position worsening as the detailed budget work progresses.

	2008/09 Budget £000	2009/10 Projection £000	2010/11 Projection £000
Changes approved or considered by Members to date	+212	+72	+327
Other known/ potential budget changes	+362	+814	+979
Changes in contributions to(+) / from (-) balances	-574	+219	-30
Total Increase in Budget Projections	0	+1,105	+1,276
Anticipated Cumulative Reduction in Council Tax Base Forecasts	--	100 Band D properties	250 Band D properties
Resulting Projected Council Tax Increase (across district)	n/a	27.7%	9.9%
New Net Savings Requirement (assuming a 4% increase in Council Tax for future years)	n/a	1,822	2,479

3 Main Assumptions, Risks and Issues underpinning the Review

3.1 In considering the table and attached details, there are some important points to note:

- a) The revised projections take account of the information provided in the Quarter 1 corporate financial monitoring report and where possible this has been updated to include Quarter 2 information. There are still gaps in the analysis, however, and these will be addressed in producing the detailed 2008/09 revised budget.
- b) The information also takes account of known, expected changes in future years, arising as a result of either last year's outturn or this year's monitoring. The figures focus on the major expected changes, and again there are gaps to address.
- c) It has been assumed that General Fund Balances will be retained at £1M and that surplus balances will continue to be used on the currently approved phased basis, though this is expanded upon later in the report.

3.2 The main financial risks and issues facing the Council at this time are outlined below:

- a) From a capital perspective, a number of significant risks exist as listed below and as a result, the Council's exposure is considered much higher than in recent times. These risks may well impact on the MTFS as, if risks materialise and no other sources of funding are found, then the Council would be faced with increasing its borrowing need, the costs of which would be felt on the revenue budget. It is anticipated that progress will be made on most, if not all of these risks as the budget progresses but if this is not the case, then it is advised that the Council would need to curb its plans to avoid taking on further significant financial risk in future, until some issues have been resolved. Again, further advice on this aspect will be provided during the budget process.
 - Regarding Luneside, total maximum exposure for outstanding compensation claims, developer contributions, and clawback (net of available funding) remains at over £10M, although negotiations are underway to find a resolution for progressing this development. A report is scheduled for the December Cabinet meeting and this will provide an up to date reassessment of the financial position and remaining risks.
 - Further to the capital update provided at the last meeting, Members agreed an increase in unsupported borrowing of £1.4M and this has been referred on to the November Council meeting for approval. The £1.4M is still dependent upon the Council achieving a further £1.2M in asset sales this year. Given the other financial pressures that have arisen since Cabinet considered this matter, it is highlighted that only essential capital works to municipal buildings will be authorised to progress; any other schemes will be incorporated into the usual review underway as part of the budget process. Furthermore it should be noted that the building works are only to improve the condition of the buildings, in line with the Corporate Property Strategy. They are not part of any wider accommodation project under Access to Services. This project is not yet included in the Council's approved spending plans and therefore there is no authority in place to commence such works.

- A report elsewhere on the agenda provides an update on Chatsworth Gardens and this highlights the current £1.2M shortfall on the scheme. The report makes various recommendations to take forward urgent discussions and pursue other options for the scheme; a further update will follow in due course.
- The impact of the Council's investments in Icelandic Institutions may also result in capital pressures (see separate section below).

The above highlights current capital issues only; general capital prospects for future years were covered last month. In particular, Members will recall that the sale of land at south Lancaster is crucial in funding the existing 5 year programme. Whilst there is also the potential for generating an extra £3.4M capital receipts in the medium to longer term, this will be influenced by the economic outlook overall and how soon the current crisis starts to turn round.

As an indication of potential costs for managing the above, the minimum annual cost of borrowing £1M is currently around £85K, allowing for interest at 4.5%. This equates to a little over a 1% increase in Council Tax at Band D. **No additional budget provision has been made at this stage for managing the risks associated with Luneside, Chatsworth Gardens, or any further capital receipts changes.**

- b) The position regarding the £6M of investments placed with Icelandic institutions represents another substantial but uncertain risk facing the Council. For information, the latest guidance issued by the Local Government Association is attached at **Appendix B**. Claims have been registered with the various Administrators but until some information is known regarding prospects for amounts recoverable and the timescales involved, it is not possible to make any reasonable estimate. The following points can be made, however:
- To the date the banks entered into administration / receivership (i.e. during the week commencing 06 October), the Council was due investment interest of £260K; this too is at risk. A further £135K was due from October to the end of this financial year, with £23K in 2009/10. **These two latter amounts have been excluded from the MTFs projections but this is very much a provisional adjustment and no further losses have been provided for at this stage.** Further guidance is being sought on how any impact will be apportioned between General Fund and the Housing Revenue Account, as this is also very unclear.
 - The Government has indicated that it will consider capitalisation applications to allow councils greater flexibility to manage the financial consequences of the Icelandic banking collapse. This means that authorities could:
 - o use capital resources such capital receipts etc, to fund any losses, depending on such resources being available; or
 - o use borrowing to fund any part of those losses. In effect, this would mean that the Council could finance them over a number of years.

Whilst it is not known whether the Government will implement a special capitalisation bidding round, the usual annual process has an initial deadline of 15 December. In the unlikely event that no better guidance becomes available before this date, in consultation with her Cabinet Member, the Head

of Financial Services will submit an initial application based on best information available at that time. This will in no way commit the Council to a specific course of action; it merely keeps the Council's options open and further updates will be reported during the budget process. Cabinet will also be aware that a special Audit Committee is being held on 17 November.

- c) Concessionary travel presents another major financial challenge for the Council. Whilst Lancashire authorities have agreed in principle to enter into pooling arrangements to help spread the costs and risks, the agreement has not yet been finalised. Under the agreement, basically councils would move to being charged their actual share of concessionary travels costs (away from the present estimates) on a phased basis over the next three years. The agreement also provides for the sharing of any scheme surpluses or deficits.

Very recently information has been released to indicate how the City Council's position stands taking account of 'actuals' data (i.e. from Smartcard readings). This shows that as at the end of July, the extra net costs facing the Council in this are between £129K and £243K. The higher figure takes account of seasonal variations and therefore represents the best estimate; this has been incorporated into the updated budget projections. These figures allow for using £150K set aside in the Concessionary Travel Reserve and assume that the pooling agreement will be implemented, which would benefit the City Council, but it is known that a number of other Councils are now reviewing their positions. The table overleaf shows the potential impact of the proposed agreement for the City Council, taking account of the seasonally adjusted cost projections.

As a final point, Cabinet should note that following last year's budget exercise a review of the community transport element of Concessionary Travel is underway, for consideration by Members.

	2008/09 £'000	2009/10 £'000	2010/11 £'000
Current Concessionary Travel Budget (excluding Community Transport, but including Reserve)	2,207	2,146	2,243
Forecasts – with Seasonal Adjustment:			
City Council Estimated Costs	2,700	2,782	2,863
Less Potential Pooling Arrangement Benefit	(250)	(192)	(91)
Net Cost to Council	2,450	2,590	2,772
Potential Net Increase Required in Budget	243	444	529

- d) There are a number of assumptions and risks regarding staffing:
- This year's pay award has not yet been agreed. The budget assumed a pay increase of 2.5% and the latest Employer offer of 2.45% has now gone to arbitration. For every ½% increase on the pay bill, this costs General Fund around £100K. The projections assume that no further offer will be made in this year but future years assume a 3% increase for now. It is hoped that during the period of the MTFs inflationary pressures will reduce from current levels, but on the other hand new pension contribution rates will come in for 2011/12 onwards.

- With regard to Fair Pay, the Council's overall aim is to manage the process within the current ongoing pay bill, with any interim costs to achieve this being met from the Reserve. There are clearly key risks attached to the position but this forms the basis of current budget projections. A report elsewhere on the agenda provides more information but it should be noted that extra turnover savings of £100K per year are assumed, and that these will be used to help fund the overall outcome. Such key financial assumptions will continue to be reviewed and updated as necessary during the project and the budget process.
 - For other aspects of turnover, a full analysis of the savings to be incorporated into this year's revised budget will be presented in due course. Coupled with previous years' information, this may highlight any service areas where there could be the potential to convert such turnover savings into permanent reductions for the staffing Establishment. This will also be influenced by the separate report elsewhere on the agenda.
- e) With regard to waste management, net savings have been generated on costs associated with recyclables and these have been factored in for future years. The estimated costs associated with the recommended option for food waste recycling (i.e. "Option 3") have been included from 2010/11 onwards.
- f) One of the larger variances arising in previous years' outturns has related to the Highways operation. Estimated annual surpluses of around £100K have now been assumed and these will be reviewed and updated as the budget develops.
- g) Regarding Civil Parking Enforcement, it is assumed that the City Council's operation will continue to break even in the coming years, under any new arrangements implemented by the County Council.
- h) At various times during the year Cabinet has made recommendations regarding the use of Area Based Grant. The updated projections assume that the funding will be used to meet commitments regarding Neighbourhood Management, subject to the budget process, and also to provide some resources for taking forward Equalities in this year. No other specific budgetary provision exists for these items. Cabinet may remember too that any County Council ABG allocations regarding Community Safety are also uncertain for future years.
- i) In terms of other various grants, these have been updated to take account of the most recent allocations. Where these have reduced, there may be options to reduce related expenditure accordingly and these will be picked up in future budget reports. No assumptions have been made regarding the new Local Authority Business Growth Incentive (LABGI) scheme, as it will be much smaller and may well last for only 2 years. For other grants, such as Planning Delivery and any others to be fed through the Local Area Agreement (LAA), it is assumed that they will have no impact on the Council's budget overall, but some will be subject to specific consideration by Members in due course as appropriate.
- j) There are a number of issues that have been reported to Members and are under further consideration, where it is not yet known what the outcome / financial implications might be. Examples include Access to Services, Williamson Park, Auction Mart Car Park, Lancaster Market, Morecambe Town Council etc etc. Furthermore there are other initiatives being taken forward, such as the Canal Corridor Development, where the Council has options regarding the nature of its

future landholdings and these will also impact on the budget. Finally, the impact of the bleak economic outlook and its impact on the demand and cost drivers for council services cannot readily be determined – although some relatively small specific aspects such as Search Fees income have been assessed provisionally. Members are requested to note these uncertainties, in addition to the headline risks reported earlier.

- k) Regarding inflation other than pay, factors for next year have not been finalised but for now an adjustment of around £200K has been provided in total, but on the basis that higher inflation is experienced only in 2009/10. The original projections assumed inflation of 2% per year increase, although currently it is running at 5.2% (based on the Consumer Price Index). As a very broad indication, a 1% increase may result in around a £100K net cost to the budget. Once the next Inflation Report has been published, factors for future years will be set and whilst these can be reviewed later during the process, it is expected that inflation forecasts (or alternatively, reduced interest rates) may well give rise to further budgetary pressures.
 - l) A 1% change in Council Tax amounts to approximately £77K. A 1% change in Government support represents £155K or approximately 2% on Council Tax. The Council Tax Base projections have been reduced provisionally, to take account of the slow down in housing developments. Firm estimates will be produced during December, in setting the Tax Base for 2009/10.
 - m) The New Net Savings Requirements shown in the table (section 2) do not provide for any other growth; they would need to be increased to provide for any such proposals. A review of progress against this year's savings and growth is also being undertaken, to be fed into the budget.
- 3.3 Whilst the above points may seem like a long list, inevitably the Council's financial forecasts have many inherent risks attached to them. Clearly demand led activities are subject to market pressures; other areas of spending / income generation will be influenced by internal factors such as competing work pressures and standards of financial management. Also major capital schemes or developments bring with them financial (as well as other) risks that could have revenue implications. The Council's financial monitoring arrangements should help to counter these risks and individual services' performance management should provide additional support. The national economy and Government's other plans can have a marked impact on financial planning, however. Inevitably further changes to the financial projections will arise in producing the detailed budget.

4 **Review of Revenue Balances**

- 4.1 As mentioned previously, for now the revised budget projections assume that the current application of surplus balances (in the ratio 3:2:1) would be retained. A supporting statement is attached at **Appendix C**.
- 4.2 The main aims of the current phasing are to help smooth out Council Tax increases for the period but also to give more time for identifying savings options, in recognition that some initiatives may take a long time to implement fully. The table below shows the original estimates for Council Tax increases and use of balances, together with the latest projections. This highlights the reliance on their use, especially in the current year:

	2008/09	2009/10	2010/11
Council Tax Increases:			
MTFS Projection (Feb 2008):	--	13.1%	8.8%
Current Position / Forecast	4.6%	27.7%	9.9%
Use Of Balances:			
MTFS Projection (Feb 2008):	£888K	£432K	£112K
Current Forecast	£1,462K	£213K	£142K

- 4.3 As at the end of next March balances are currently forecast to reduce to £1.427M and whilst this is still substantially higher than the £1M basic minimum, it is the lowest forecast for some years. It is also highlighted that carrying balances of around £1M can generate around £50K per year in investment interest. Once the funds are spent, the investment interest is lost.

5 Other Issues for Consideration

5.1 Capping Criteria

Members may be aware that in previous years the Government has exercised its capping powers. Effectively this has meant that some councils have been forced to set lower budgets and council tax rates, because they had not met certain Government criteria.

Government did use its powers for 2008/09 Council tax setting. Whilst the average Council Tax increase in England was quoted as 4.0%, not all complied with Government's expectations that council tax rises should be substantially below 5%, hence capping powers were invoked.

A recent Government announcement (made before the current economic crisis) stated "there is no excuse for excessive increases in council tax, and authorities should be in no doubt that the Government will use its full range of capping powers to deal with excessive increases and protect council tax payers in future years".

Cabinet is advised to take this into account in reviewing its MTFS targets for future years.

5.2 Council Priority Setting and Key Partnerships

As mentioned at the start of this report, the MTFS review forms the initial financial basis for progressing the 2009/10 budget and policy framework, and at previous meetings Cabinet has considered the way forward regarding priority setting and the associated consultation exercise. Whilst clearly there is much pressure on authorities generally to save money and restrict Council Tax increases, Members will have aims and aspirations regarding service delivery and potential improvements or reductions etc. It is important that the MTFS is considered in this context; the two processes (i.e. financial planning and priority setting) should inform each other and this is reflected in the timetable approved at the Cabinet meeting back in July.

Cabinet Members may also be aware that another piece of work regarding assessment of the Council's key partnerships is underway, due for completion in

March. The outcome of this may also have bearing on the MTFS and associated budget projections for the future.

It is important to note, therefore, that as yet this initial review of the financial projections underpinning the MTFS does not take account of any potential changes in the Council's priorities, and how they fit with other key partnerships. The financial implications and options arising from the outcome of the priority setting exercise will be considered at a later stage during the budget, and fed into the resulting MTFS for consideration at Budget Council.

5.3 Government's Spending Plans and Finance Settlements

Every three years the Government undertakes a strategic Comprehensive Spending Review (CSR) of its spending plans. The last one was completed during 2007 (known as CSR07) and in turn, this informed the first ever three-year settlement for Councils, which included provisional allocations for 2009/10 and 2010/11 as well as 2008/09.

Latest information is that the 2009/10 and 2010/11 settlement figures will be confirmed in February 2009 and February 2010 respectively. These will each be subject to the usual annual statutory consultation exercise, however, and therefore it is expected that provisional figures will be re-issued in November each year.

For 2011/12, at present it expected that provisional figures will be released only once the next CSR has been completed, i.e. in 2010. The figures would be released as part of the next three-year settlement, i.e. 2011/12 to 2013/14.

In short, there will be no rolling three-year settlement. Each will simply follow on from the next, with no overlap or annual review.

It is also known that Government do not intend to update the provisional allocations for 2009/10 and 2010/11 for any data changes – to give greater certainty to Councils. That said, the Local Government Association and Councils are lobbying the Government to take account of the large increases in costs expected for Concessionary Travel and Energy, as examples, but clearly the Government is facing a very difficult financial outlook at present.

For the MTFS projections, therefore, the existing provisional allocations will be used, and 2011/12 will be addressed later during the budget.

	2008/09	2009/10	2010/11
	<i>Final £'000</i>	<i>Provisional £'000</i>	<i>Provisional £'000</i>
Total Government Support (known as Formula Grant)	15,523	15,994	16,377
Made up of:			
Redistributed NNDR	13,626	No split	No split
Revenue Support Grant (RSG)	1,897	available	available
Year on Year Increase:	£591K 4.0%	£471K 3.0%	£383K 2.4%

6 **Details of Consultation**

The consultation on Cabinet's proposed priorities for 2009/10 onwards is currently underway, and this includes future Council Tax targets. The outcome of this will feed into future budget and MTFs considerations.

7 **Options and Options Analysis (including risk assessment)**

Cabinet is asked to consider the financial projections and information included above. Options on the key aspects are set out below.

7.1 **Council Tax Targets:**

- (a) **Option 1 -retain the existing Council Tax target increases for future years**
Current forecasts indicate that this would require net savings of £1,822K and £2,479K to be identified for 2009/10 and 2010/11 respectively.
- (b) **Recommend an alternative Council Tax target increase for future years.**
The level of any net savings requirement (and the associated risks) would depend on the tax level proposed.

The main risks attached to either option follow on from the assumptions and information underlying the revision of the financial projections and the ability of the Council to take decisions on matching service levels with the money available to fund them. In addition, the reputation and public perception of the Council may be affected. The key risks can be summarised as follows:

- Actual savings targets prove to be substantially different from shown above, due to changes in financial projections.
- Required savings targets can't be met, without having an unacceptable impact on service delivery – either from the Council's own viewpoint or from public perception.
- Government / the public perceive the increase to be too high, resulting in capping action being taken against the Council and/or a negative impact on public relations and the Council's reputation
- Council tax targets are too low, resulting in them being unsustainable in the longer term, without having adverse effects on future service delivery and/or the Council's financial standing and reputation.

The report highlights that there is significant scope for the projections to change, as a result of both internal and external factors. To counter this, there will be further opportunities to review target increases during the forthcoming budget as more definite information becomes available on forecast spending.

With regard to capping, the report provides information on Government's actions this year and its commitment to using its capping powers in future. Should Cabinet wish to support spending levels that result in a Council Tax increase much higher than the current MTFs target, then there are strong indications that the Government is likely to challenge this course of action. This may well result in the Council's budget being capped – in such a situation it would be forced to cut spending / services in an unplanned way and it would incur rebilling costs. Alternatively, if Cabinet wish to support a much lower increase, then future sustainability may become an issue. At present the financial projections for 2009/10 appear much worse than previously reported but they could change significantly, though on balance it is felt they are likely to get worse, rather than better.

In terms of options, the impact on Council Tax payers is key. Members should consider the balance between providing services that the local community needs and wants, against how much it is prepared to pay. There will be reputational, operational and financial risks, opportunities and trade-offs attached to whichever option Cabinet chooses.

8 Officer Preferred Option and Comments

There is no specific officer preferred option with regard to Council Tax levels. That said, the Head of Financial Services would advise against planning for a Council Tax increase of 5% or above at this time as it would in all likelihood be subject to capping, although the Council must also be in a position to set a robust, achievable budget in line with its priorities. Conversely, the Head of Financial Services would advise against aiming for too low a Council Tax level at this time if Members aim to continue to provide a wide range of services to the public and wish to avoid more potential for major service cuts in future years.

Whatever Council Tax targets are in place, Members need to have supporting plans in place to achieve a balanced budget.

9 Conclusion

The Council's financial economic outlook has deteriorated significantly since February, and there is still considerable uncertainty that is likely to result in further pressures. There is now a strong need to respond positively to this challenge, in ensuring greater focus on key service areas and in delivering the necessary savings, including service reductions, to achieve Council Tax targets. This is a scenario facing many councils up and down the country.

RELATIONSHIP TO POLICY FRAMEWORK The Medium Term Financial Strategy is part of the policy framework.	
CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability etc) There is no direct, quantifiable impact arising at this stage, although the MTFs sets out the level of funding expected for the delivery of council services. As such, it will have a direct bearing on the level and impact of services provided in future.	
FINANCIAL IMPLICATIONS As referred to in the report.	
DEPUTY SECTION 151 OFFICER'S COMMENTS The s151 officer has produced this report, as part of her responsibilities.	
LEGAL IMPLICATIONS Legal Services have been consulted and have no comments to add.	
MONITORING OFFICER'S COMMENTS The Monitoring Officer has been consulted and has no further comments.	
BACKGROUND PAPERS Medium Term Financial Strategy	Contact Officer: Nadine Muschamp Telephone:01524 582117 E-mail:nmuschamp@lancaster.gov.uk

Summary of Anticipated Budget Changes
Review for reporting to Cabinet 19 November 2008

		2008/09 Budget £000	2009/10 Projection £000	2010/11 Projection £000
Changes Approved by Cabinet to date:				
	Minute:			
22 April: Area Based Grant (ABG) Provisional Amounts Due	} 144	-703	-307	-75
ABG Allocation to Neighbourhood Management (subject to budget)	}	+677	+258	
01 May: Morecambe Football Club	150		+2	+2
31 July: Carry forward of underspends (approved also by Council)	35(7)	+238		
Changes Approved by Cabinet, but subject to Council Approval:				
02 Sept: Storey Creative Industries Centre support / TIC Rent	57		+63	+31
07 Oct: Capital Investment Strategy Update	71(2)		+56	
Food Waste Recycling (Option 3)	68			+369
Sub-total: Changes Approved or Considered by Members		+212	+72	+327
2008/09 Projected Net Underspend per Quarter 1 monitoring:		-80		
Adjustments affecting Quarter 1 monitoring figure above:				
Lancaster Market Rent		+39	+50	+50
Search Fees		+45	+20	+20
Licensing Income		-20	-20	-20
Other Known or Potential Changes:				
Waste Collection (Net reduction re recyclables)		-66	-69	-71
Anticipated Surplus on Highways Operations		-99	-100	-100
Homelessness Grant (Error in Govt. original notification)		+20	+21	+22
Potential Equality Expenditure (following call-in on Area Based Grant)		+26	?	?
Reduction in Housing Benefit Administration Grant			+34	+38
Concessionary Travel		+243	+444	+529
Investment Interest (Icelandic Banks - very provisional adjustment)		+135	+23	?
St.Leonard's House Rental Income		+119	+111	+111
Pay Inflation (assumes 3% increase, initially)			+100	+200
Other Price Inflation (very provisional adjustment)			+200	+200
Sub-total: Other Known / Potential Base Budget Changes		+362	+814	+979
Use of Surplus Revenue Balances:				
Funding of Carry Forward Requests (per Member approvals above)		-238		
Funding of Current Year's Estimated Overspend (per this review)		-336		
Change in Future Estimated Phased Use of Balances (see attached schedule)			+219	-30
Sub-total: Change in Use of Balances		-574	+219	-30
Total Estimated Net Budget Increases		+0	+1,105	+1,276

Any Member approvals that are wholly cost neutral have been excluded, for simplicity.

Some budget changes are subject to full Council approval.

Future Years' Budgets, Settlement Assumptions and associated Council Tax Rates

Review for reporting to Cabinet 19 November 2008

	2007/08 Original £000	2008/09 Budget £000	2009/10 Projection £000	2010/11 Projection £000
Original Revenue Budget Projection	22,309	23,211	24,726	25,924
Proposed Amendments (see attached sheets):				
Changes approved or considered by Members to date		+212	+72	+327
Other known / potential budget changes or proposals		+362	+814	+979
Additional Contributions to (+) / From (-) Balances		-574	+219	-30
Latest Revenue Budget Projection	22,309	23,211	25,831	27,200
Latest Estimated Government Support	14,932	15,523	15,994	16,377
Collection Fund Deficit / (-) Surplus	-60	+0	+0	+0
Amount met by Council Tax	7,317	7,688	9,837	10,823

Latest Tax Base Estimates	43,150	43,250	43,300
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COUNCIL TAX IMPLICATIONS :

Band D Average Council Tax (across district)	£178.17	£227.45	£249.95
Percentage Increase Year on Year	4.6%	27.7%	9.9%

As Compared with:

Projections in February 2008	£201.43 13.1%	£219.24 8.8%
MTFS Targets, February 2008	£185.30 4.0%	£192.71 4.0%

FOR INFORMATION :

The above projections assume an annual increase of 100 Band D properties on the Tax Base for 2009/10 and an increase of 50 thereafter.

The Council Tax figures in the shaded boxes relate to the average City Council Tax payable across the district. This is the rate that the Secretary of State considers when deciding when to use his capping powers.

Future Years' Net Savings Requirements

Review for reporting to Cabinet 19 November 2008

	2008/09 Budget £000	2009/10 Projection £000	2010/11 Projection £000
Proposed Amendments (see attached sheet):			
Budget Changes approved or considered by Members to date	212	72	327
Other known / potential base budget changes	362	814	979
Change in Use of Revenue Balances	-574	219	-30
Impact of Reduction in Tax Base Projections		+18	+48
Total Estimated Net Change	0	1,123	1,324
Original Net Savings Requirement		-699	-1,155
New Net Savings Requirement required to achieve a 4.0% average Council Tax increase across the district		-1,822	-2,479

Total In Year Contribution from Balances assumed in above	1,462	213	142
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A 1% change in Council Tax equates to roughly £77,000
A 1% change in Government Support equates to roughly £155,000 or 2% Council Tax

Note that the Savings Requirements shown above (£1,822K for 2009/10 and £2,479K for 2010/11) do not provide for any further growth at present - they would need to be increased accordingly.

MTFS UPDATE TO CABINET 11 NOVEMBER 2008

APPENDIX B

30 October 2008

Dear Colleague,

The purpose of this note is to update you on the Icelandic Bank situation and the work the LGA has been doing over the last three weeks.

You can find LGA's press releases and public statements on this issue at: <http://www.lga.gov.uk/lga/core/page.do?pageId=659902>

Recap of position

There are four banks with which local authorities made deposits that are either Icelandic companies or UK subsidiaries of Icelandic companies.

The four are:

- Landsbanki Islands hf, a public limited company incorporated under the law of Iceland (Landsbanki)
- Glitner Bank (Glitner), an Icelandic Bank whose parent company is in receivership in Iceland
- Heritable Bank plc (Heritable), a UK subsidiary of an Icelandic group. Heritable is in administration under UK law.
- Kaupthing Singer & Friedlander Ltd (KSF), a UK subsidiary of an Icelandic group. KSF is in administration under UK law.

Landsbanki and Glitner are in Icelandic receivership, whereas Heritable and KSF are in UK administration. The deposits are split across the four banks:

Landsbanki	£347m
Glitner	£208m
Heritable	£284m
KSF	£ 82m

The LGA has analysed how much money has been deposited by each type of English local authority within its membership:

Shire Counties	£274m
Shire Districts	£229m
London Boroughs	£148m
Unitary authorities	£106m
Metropolitan districts	£32m
Fire and rescue authorities	£1.4m

Requests for information from the LGA - breakdown across banks

A number of authorities have requested details about which fellow councils are exposed to different banks, allowing them to work out who they need to work with.

We are be happy to share with the councils affected a list of other authorities with deposits with the same bank. However, given the sensitivities in this area we will not include your council's name and share it with others if you opt out of this. **Please email us at lqfinance@lga.gov.uk by close Tuesday 4 November if you do not want your council to be included on this list.**

UK Administrators

A number of councils have raised queries about the differences between administration and receivership. Full guidance is available at: <http://www.companieshouse.gov.uk/about/gbhtml/gbw1.shtml>

We have had conference calls with the Administrators of UK subsidiaries of Icelandic banks (Ernst and Young); they plan to report back in mid November with a more detailed assessment how much authorities might receive and when this could be paid.

We noted that we did not wish to see a fire sale of assets, and that Administrators should focus on gaining maximum value for creditors.

The Administrators have asked that we have two groups of local authority councils who will act as lead creditors. The lead authorities include Counties, Districts, Police Authorities, and Welsh Councils. Authorities represented on the creditor groups are listed below:

Kaupthing Singer and Friedlander

- Cheltenham
- Bassetlaw
- Hertfordshire
- Peterborough
- Carmathenshire
- BANES

Heritable

- Plymouth
- Haringey
- South Ribble
- West Sussex
- Gateshead
- Caerphilly
- Westminster

Further details about the work of these creditor groups, and how they will liaise with other councils, will be circulate as soon as possible.

Icelandic receivers

We have been pressing HM Treasury to take this issue forward and they have provided the update below.

"Following conversations between the Chancellor and Icelandic Prime Minister, a delegation of officials from the Treasury and Bank of England held discussions with the Icelandic authorities. The recent round of discussions has ended but talks are not over and will be continued in the very near future. The aim of these is to agree a mechanism whereby the Icelandic government can honour its obligations to UK depositors and ensure the fair treatment of UK creditors."

We are in the process of setting up creditor groups for the Icelandic banks, with a view to them acting as a contact point with the Landsbanki and Glitner administrative committees. Again, further details about the work of these creditor groups, and how they will liaise with other councils, will be circulated as soon as possible.

Glitnir have recently published a press release giving an email address through which creditors are advised to get in touch, see: [http://www.glitnirbank.com/media/news-room/detail/item/7217/Glitnir_banki_hf_\(%22Old_Glitnir%22\)/](http://www.glitnirbank.com/media/news-room/detail/item/7217/Glitnir_banki_hf_(%22Old_Glitnir%22)/)

Accounting treatment of impairments

CIPFA is developing guidance on treatment of potential liabilities. Their draft guidance is attached as Appendix A [*Note to Cabinet: this is not attached as it is a technical document but it is available for any member if they would like it*]

Information/advice will be needed at time budget assumptions are finalised, as well as later in the budget process – when S151 Officers are advising on the robustness of budgets, and adequacy of reserves. We will press the CIPFA and the Audit Commission to ensure authorities have consistent information and advice.

Ratings Agencies

We have called for a review of the role of credit agencies, given that the bank ratings remained largely stable over the summer before collapsing.

Parliamentary review and John Healey evidence to CLG select committee

The CLG Parliamentary Select Committee have announced that they will hold an inquiry into local authority investments. The LGA will be submitting a response to this, and will consult with its members on this. Details of the inquiry are available here:

http://www.parliament.uk/parliamentary_committees/clg/clg_200708_pn63.cfm

Ministers Hazel Blears and John Healey appeared in front of the Parliamentary Select Committee on 27th October. The LGA set out its objections in advance to the naming of individual authorities in that meeting.

Ministers did open the door to capitalisation of amounts owed – but this would be assessed on a case-by-case basis. They released a note after the meeting setting out the position as they see it <http://www.communities.gov.uk/statements/corporate/icelandicbanks> .

Audit Commission

We have agreed to undertake a joint review of lessons learned with the Audit Commission. That work has not started yet and we'll ensure colleagues are kept up-to-date with developments.

We will also press for consistent treatment of authorities facing Icelandic difficulties in CPA and other audit queries.

Lobbying

LGA continues to press for Government support for authorities who face financial difficulties. We are drafting a set of proposed actions which we believe would help authorities who face difficulties.

Communication

We are conscious it has been a while since we contacted you all directly and apologise for this. We hope to be able to provide regular updates on this issue in future, and are planning on weekly communications to council chief executives and leaders of council political groups. These will be based on more detailed communications which we intend putting out to our finance contacts.

A number of you have raised queries about similar issues, or mentioned pieces of work you are thinking of doing that would be of interest to other authorities. We propose creating a shared mailing list, to enable you to share information among yourselves. We would appreciate any views on this – in particular whether you find it useful.

The LGA finance team

Local Government Finance team
Policy Directorate
Local Government Association

t: 020 7664 3131
e: lqfinance@lga.gov.uk

GENERAL FUND BALANCES SUMMARY
Per MTFS Review, Cabinet 11 November 2008

	Per 2008/09 Budget Process	Per this MTFS Review	Sub Total
	£	£	£
Balance as at 31st March 2007	3,014,904	3,014,904	
Budgeted Contribution to Revenue Budget 2007/08 Underspend (following Outturn)	(583,100)	(583,100) 456,561	
Balance as at 31st March 2008	2,431,804	2,888,365	
Budgeted Contribution to Revenue Budget Spending of Carry Forward Approvals (Cabinet 31 July 08) 2008/08 Projected Overspend per this MTFS review	(887,800)	(887,800) (237,800) (338,000)	(1,461,600)
Balance as at 31st March 2009	1,544,004	1,426,765	
Budgeted Contribution to Revenue Budget Reduction in contribution per this MTFS review	(431,500)	(431,500) 219,000	(212,500)
Balance as at 31st March 2010	1,112,504	1,214,265	
Budgeted Contribution to Revenue Budget Additional contribution per this MTFS review	(112,500)	(112,500) (30,000)	(142,500)
Balance as at 31st March 2011	1,000,004	1,071,765	
Budgeted Contribution to Revenue Budget Additional contribution per this MTFS review	0	0 (71,000)	
Balance as at 31st March 2012	1,000,004	1,000,765	

BUDGET AND PERFORMANCE PANEL

Star Chamber

25th November 2008

Report of Corporate Director (Finance and Performance)

PURPOSE OF REPORT

To receive an update on the Star Chamber meetings held since the last report to Cabinet of 2 September 2008.

This report is public.

RECOMMENDATIONS OF COUNCILLOR ROGER MACE

(1) That the report be noted.

1.0 Introduction

- 1.1 Star Chamber is an informal meeting of Cabinet Members supported by senior officers. Its purpose is to provide a continuing process that considers options brought forward from cabinet portfolio holders with the aim of ensuring value for money by identifying potential efficiencies, and opportunities, where appropriate, for diverting resources away from non-priorities and into Council priorities. These options may well consider alternative methods of service delivery and how increased collaboration within Team Lancashire could provide efficiencies. Options will focus on financial, physical, and human resource matters.
- 1.2 Star Chamber also provides the framework and focus for achieving the financial savings targets included in the Medium Term Financial Strategy and Corporate Plan, and also to assist Cabinet in bringing forward its annual budget proposals.
- 1.3 The group meets regularly to consider proposals brought forward by Cabinet portfolio holders and reports for information are made on a regular basis into Cabinet and also into the Budget and Performance Panel.
- 1.4 Star Chamber works to revised Terms of Reference as agreed at the Cabinet meeting held on 2 September 2008.
- 1.5 Since the last report to Cabinet, Star Chamber met on 24 September 2008. Action notes are attached as an **Appendix**.

RELATIONSHIP TO POLICY FRAMEWORK

The work of the Star Chamber is critical to providing a challenge and review to both the way that our services are provided or their appropriateness to the targets set out in the Corporate Plan & Policy Framework. In particular this can be seen in:

- Corporate Plan Core Values – Sound Financial Management
- Corporate Plan Priority No 1 “To deliver value for money customer focused services”
- Revenue Budget & Capital Programme Monitoring
- Medium Term Financial Strategy target

CONCLUSION OF IMPACT ASSESSMENT

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

None arising directly as a result of this report.

FINANCIAL IMPLICATIONS

None arising directly as a result of this report.

DEPUTY SECTION 151 OFFICER’S COMMENTS

The Section 151 Officer has been consulted and has no comments to add.

LEGAL IMPLICATIONS

None arising directly as a result of this report.

MONITORING OFFICER’S COMMENTS

The Monitoring Officer has been consulted and has no comments to add.

BACKGROUND PAPERS

Corporate Plan 2008/09
Revenue Budget and Capital Programme
Medium Term Financial Strategy 2008

Contact Officer: Roger Muckle

Telephone: 01524 582022

E-mail: rmuckle@lancaster.gov.uk

Ref: RCM/JEB

ACTION NOTES FROM STAR CHAMBER HELD ON 24 SEPTEMBER 2008

PRESENT: Councillors R Mace (Chair), E Archer, J Barry, E Blamire, J Gilbert, D Kerr
H McManus, P Loker, R Muckle, N Muschamp, G Haigh (Part), J Barlow (notes)

1 APOLOGIES

Apologies received from Councillor S Charles, M Cullinan.

2 “EVERY PENNY COUNTS” CAMPAIGN – PRESENTATION BY GILL HAIGH

Key messages (slide 9) 3rd bullet point should be changed to say “average council tax per household per week” and not “average cost” as this wasn’t strictly true.

As well as Council owned buildings GH was asked to explore the possibility of putting displays in the libraries, the museums, supermarkets, Arndale Centre, empty offices on Euston Road, empty shops, bus station.

It was agreed to use the display when doing public consultation on priorities. Copies would be sent to all Cabinet members for their use as appropriate. Star Chamber noted that the Campaign was to be launched in October.

3 BUDGET UPDATE AND FUTURE PROCESS

The new process for bringing forward efficiency and savings options were discussed in detail.

An updated calendar of meetings was requested. NM to update the B&PF timetable and incorporate other timetables involving meetings re budget setting, and distribute.

Councillor Mace was available to Cabinet members for discussion about priorities which could be discussed further at 7 October Cabinet.

Directors to arrange meetings with Service Heads and Cabinet Members to progress options for efficiencies, savings and growth.

Members to indicate when setting priorities what were not priorities which is helpful for officers when preparing options.

4 OUTSTANDING ITEMS

Outstanding reports would go to portfolio holders who should decide if there were efficiency/savings options that could go forward for recommendation to Star Chamber and Cabinet.

Directors to clarify to members all Services’ statutory and non-statutory functions to help them identify efficiencies and savings.

5 NEXT MEETING

The meeting on 1 October was cancelled. The next Star Chamber meeting would be 12 November.

The Leader requested an informal Cabinet meeting on 15 October at Morecambe. JEB to inform those not present and book a venue.

JEB/25 September 2008

BUDGET AND PERFORMANCE PANEL

Review of Investments in Icelandic Institutions

25th November 2008

Report of Head of Financial Services

PURPOSE OF REPORT

This report provides Members with the details surrounding the placing of investments with Icelandic banks and information regarding recovery action.

This report is public.

RECOMMENDATIONS

- (1) That the report be noted, and the Committee makes any further recommendations as appropriate.

1 Introduction

- 1.1 In early October the Icelandic banking sector effectively collapsed, resulting in Heritable Bank and Kaupthing, Singer and Friedlander (KSF) falling into administration, and Landsbanki and Glitnir falling into receivership. The Council has money invested in three of these institutions and concerns have been raised, in particular regarding why monies were placed with one of them in early summer and what the Council's prospects for recovery are.
- 1.2 In response the Chairman has agreed to an extraordinary meeting of the Committee and this report has been produced in answer to the concerns raised. In addition Richard Dunlop, a Director from Butlers, the Council's Treasury Advisors, will also give a presentation to provide further information.

2 Current Investments in Icelandic Banks

- 2.1 The Council currently has investments totalling £6M placed with three separate Icelandic banks, details of which are as follows :

Institution	Investment £	Trade Date	Start Date	End Date	Rate %	Interest £
Landsbanki Islands	1,000,000	15 May 07	16 May 07	15 May 09	6.25	125,000
Glitnir	3,000,000	12 Jan 07	14 Jan 08	14 Jan 09	5.76	173,123
Kaupthing, Singer & Friedlander	2,000,000	15 May 07	16 May 08	15 May 09	6.00	119,671

- 2.2 It can be seen that for two of the investments, the Start Dates are a year later than the Trade Dates. These are known as 'Forward Deals', where a contractual obligation is made at the trade date, to place money with an institution at a later date. Decisions to take out forward deals would be based on normal investment criteria, as discussed below, albeit taking a slightly longer term view.

3 Investment Principles and Objectives

- 3.1 As required by the statutory regulations and the CIPFA Code of Practice on Treasury Management, each year Council approves an Investment Strategy as part of its treasury management arrangements. In particular this sets out criteria to manage the security and liquidity aspects of placing investments with institutions (known as counterparties).
- 3.2 The main principles governing the Council's investment criteria are the security and liquidity of its investments before yield, although the yield or return on investment will also be a consideration, subject to adequate security and liquidity. This is in line with Government guidance on Local Government Investments, which also states that "*it will be appropriate to seek the highest rate of return consistent with the proper levels of security and liquidity*".

To help understanding of the above statements:

Security: relates to how safe an investment is, i.e. how reliable is the institution in which money is invested

Liquidity: relates to cash flow, i.e. making sure investments are flexible enough to avoid unnecessary cash flow difficulties

Return: typically the interest made on investments

- 3.3 Given the nature of the concerns raised, more information regarding the security aspects is provided in the section below.

4 Security of Investments

- 4.1 As set out in the attached Strategy extract at **Appendix A**, the security of investments is managed through using credit ratings; this element of the Strategy has remained broadly the same for the last few years or so. There are three main agencies – Fitch, Moody's and Standard and Poor's. The ratings given by each agency differ in range and terminology, however, and so for consistency the Investment Strategy refers to Fitch ratings.
- 4.2 It should be noted that financial institutions invite the agencies to rate their organisations, so if one is not rated by all agencies it does not necessarily preclude it from being on the Council's counterparty list. For the three Icelandic Institutions, they all had Fitch and Moody's ratings but only one (Glitnir) had Standard and Poor's.
- 4.3 Each agency covers various criteria in determining its ratings and these are reviewed regularly. More information on this will be included in the presentation but a summary of the ratings and their movements for the Icelandic banks is included at **Appendix B**.

- 4.4 As touched on in section 2.2 above, under the Investment Strategy investments can be placed for a future date, i.e. an investment could be agreed (or 'traded') today with a start date of 01 April 2009, providing that the chosen institution's credit ratings are sound and that the investment would not cause any foreseen difficulties with cashflow. The main reason for considering such forward deals is to provide some degree of certainty with regard to future returns, as there can be much uncertainty in future movements in interest rates and sometimes, on balance, it can be viewed better to lock into future agreements rather than keep all investments short.
- 4.5 For any investment, on the day of trading the Council enters into a contractual obligation to transfer the money to the financial institution concerned, irrespective of what its credit rating may be on the actual date of transfer. Whilst there is, therefore, more potential risk attached to forward deals and longer term investments because of the timescales involved (through more scope for ratings changes over that time), generally the credit ratings used are such that a minor downgrading should not affect the full receipt of principal and interest – again this is provided for with the Strategy. The ratings should give the Council sufficient comfort as to the long term stability of the institution.
- 4.6 Generally, in its portfolio the Council would hold a mix of fixed term short dated investments, longer dated investments, forward deals and also monies in 'call accounts', where deposits can be recalled at any time and so are not fixed for a term. The mix would depend on cash flow needs, interest rate prospects and budgetary considerations. The security of investments would be managed through the ratings attached to the counterparties involved.
- 4.7 Regarding Icelandic institutions, the Council has used them on around 20 other separate occasions since 2006/07, generating investment interest of approximately £544K.

5 Issues relating to the KSF Investment

- 5.1 Specific concerns have been raised regarding the KSF investment. As can be seen from Appendix B, this investment was traded on 15 May 2007 and therefore at that date, the Council entered into a contractual obligation to transfer £2M to the bank on 16 May 2008.
- 5.2 On 09 May 2008, the bank's credit ratings fell to just below those required under the Investment Strategy and it was removed from the Counterparty list, so that new investments could not be placed with it.
- 5.3 It was recognised, however, that the Council had an existing contractual commitment to transfer the £2M a week later. Nonetheless advice was still sought from Butlers, who confirmed the contractual obligation. Given the relatively minor reduction in ratings, the view at that time was that there was no significant risk to the Council, and so the investment was duly placed. At that time, there were relatively positive articles in the press ("Icelandic banks come in from cold", Financial Times, 11 May 2008) which reported on the banks' first quarter's solid results and indicated some evidence that they were basically sound, though potentially they had been subject to various misconceptions surrounding their funding positions. There can be much speculation in the press and media, but under the Council's Investment Strategy reliance is placed on the credit ratings from the agencies, based on them undertaking objective assessments of counterparties and factoring the results into their ratings.

- 5.4 It was not until 30 September that the bank's ratings plummeted, and it failed very shortly afterwards. In May, there was no information to warrant breaching the investment contract with KSF, as it was expected then that the bank would continue to trade and therefore would have taken legal action against the Council had the forward deal not been placed. Furthermore the Council's reputation also must be considered. The Council needs to be in a position of trust with other counterparties in order to place investments and gain favourable rates; it is felt that this would not have been the case if the contract with KSF had been breached and legal action had ensued.

6 **Monitoring of Treasury Management Activities**

- 6.1 Under the Council's Treasury Management framework, quarterly monitoring reports are submitted through Performance Review Team (PRT) meetings, and an annual report is submitted (via Cabinet) to Council.
- 6.2 An update on the investment position was included in Financial Services' Quarter 1 PRT and the Investment Register at that date is included at **Appendix C** for information. The following was also reported at that time, in respect of the counterparty list:

“Changes to the list have been more frequent than usual over recent months, as more and more financial institutions have encountered trading difficulties. There have been instances where counterparties have been downgraded, or even removed from the list, during the lifetime of an individual investment. Where applicable to current investments, these are highlighted on [Appendix C to this report]. Given that the underlying criteria behind the list are extremely robust, making it sensitive to even minor changes, it is felt that this has not resulted in any materially increased risk to the Council so far, but the position will continue to be monitored. As a further mitigation measure, no forward deals are currently being entered into, but this will also be kept under review.”

- 6.3 Given the above, the contractual position regarding investments and the relatively minor changes in credit ratings coming through at that time, it is felt that no further actions could have reasonably been taken other than place the £2M with KSF, as contractually committed to do so.

7 **Administration / Receivership Arrangements**

- 7.1 By 08 October 2008 all three institutions were either in administration or receivership and had effectively defaulted on their financial commitments. The Local Government Associated (LGA) has become involved on behalf of councils and on 30 October it sent an update to all affected authorities explaining the latest position. This update is attached at **Appendix D** and in essence it reported that:
- UK Administrators (Ernst & Young) had been set up for KSF, and a list of lead creditors had been established to represent all local authority councils. They would report back in mid November with a more detailed assessment of how much authorities might receive and when this could be paid.

- The LGA were in the process of setting up creditor groups for Landsbanki and Glitnir, to work with the Icelandic Receivers.
- 7.2 With regard to this latter point, on 03 November 2008 the LGA wrote to Councils with interests in Landsbanki and Glitnir, inviting them to an initial meeting with Deloitte and Touche, who are now acting on behalf of the creditors of the banks.
- 7.3 This is in advance of “informal” meetings of the full creditor committees for each bank, which is due to be held in the week beginning 10 November 2008 in Iceland. The initial meeting will :
- Review information received to date from Deloitte about the administration process, including what ground the first creditor meeting is likely to cover, and any decisions it might take;
 - Discuss the composition of the steering committee for each bank, and confirm the local government representatives that will attend the meeting in Iceland;
 - Agree a set of common principles that the local authority creditor representatives attending the meeting(s) will need to promote.
- 7.4 Whilst no City Council representative attended, arrangements have been made to gain feedback from other Lancashire authorities and a further update will be fed into the Audit Committee meeting.
- 7.5 In addition, it can be confirmed that the Council has registered as a creditor for all 3 institutions. Recovery will now be subject to the administrative processes either here in the UK or in Iceland.

8 **Prospects for Recovery**

- 8.1 The position regarding the £6M of investments placed with Icelandic institutions represents a major but uncertain risk facing the Council and this has been highlighted in the recent Medium Term Financial Strategy (MTFS) update report to Cabinet. The following points can be made though:
- The Government has not guaranteed councils' and other bodies' investments in the way that it has for individuals. Assuming that this does not change, recovery will be through the Administration processes outlined above.
 - To the date the banks entered into administration / receivership, the Council was due investment interest of £260K and this too is at risk, as well as the £6M invested. A further £135K was due from October to the end of this financial year, with £23K also due in 2009/10, but it is not expected that these amounts will be recovered. These two latter amounts have been excluded from the MTFS projections reported to Cabinet but this is very much a provisional adjustment and no other losses have been provided for at this stage.
 - Until some information is known from the Administrators regarding prospects for amounts recoverable and the timescales involved, it is not possible to make any reasonable estimates of the financial impact overall.
 - Guidance is being sought on how the impact will be apportioned between General Fund and the Housing Revenue Account, as this is very unclear.

- 8.2 The Government has indicated though that it will consider capitalisation applications to allow councils greater flexibility to manage the financial consequences of the banking collapse. This means that authorities could:
- use capital resources such as capital receipts etc, to fund any losses, depending on such resources being available; or
 - use borrowing to fund any part of those losses. In effect, this would mean that the Council could finance them over a number of years.
- 8.3 Whilst it is not known whether the Government will implement a special capitalisation bidding round, arrangements are in hand to submit an initial application in the usual annual application process, which has a deadline of 15 December. This does not commit the Council to a specific course of action; it merely keeps the Council's options open.
- 8.4 Council Officers will continue to work with the LGA and other councils over the coming weeks to give support to the arrangements for recovery, and any associated developments.

9 Future Reporting Arrangements

- 9.1 As the matter is so significant, and given that the budget process is currently underway, formal updates will be included in the budget reports on every Cabinet agenda until March. This is in addition to the usual quarterly monitoring referred to earlier, and ensures that all Members are informed of developments and the implications can be taken account of in the budget and planning process. Thereafter, the reporting position can be reviewed in light of progress made. Any key information arising will also be communicated informally in the meantime.
- 9.2 As a result of recently approved changes to the Council's performance management framework, from Quarter 2 the corporate financial monitoring report (including treasury management) will be considered by Cabinet, and this change is felt timely.

10 Current and Future Investment Arrangements

- 10.1 In light of the uncertainties in the banking sector, the Head of Financial Services put into place new temporary treasury management arrangements with effect from 06 October 2008. In effect, these now keep any new investments very short, with counterparties being limited to either key British or Irish Institutions, where the Government has guaranteed wholesale deposits (i.e. the type made by local authorities). The likelihood is that over the coming months, there will be little if any need to place new investments, but the current arrangements will remain in place in the current climate.
- 10.2 As can be seen from the LGA note attached, the Government is undertaking an inquiry into local authority investments and it is expected that further guidance and/or regulation will arise as a result of the banking crisis. Any such changes will be incorporated into the Council's treasury management arrangements for the future.
- 10.3 Finally, the next internal audit review of treasury management will be undertaken shortly and its scope will be influenced by recent events and any resolutions arising from this Committee meeting.

11 **Options and Options Analysis (including risk assessment)**

This report is for information and no options are put forward.

CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing) No implications directly arising.	
FINANCIAL IMPLICATIONS As set out in the report.	
SECTION 151 OFFICER'S COMMENTS This report has been prepared by the s151 Officer.	
LEGAL IMPLICATIONS There are no legal implications directly arising from this report.	
MONITORING OFFICER'S COMMENTS The Monitoring Officer has been consulted and has no further comments.	
BACKGROUND PAPERS Treasury Management Strategy, Investment Strategy, Treasury Management investment documents.	Contact Officer: Nadine Muschamp Telephone: 01524 582117 E-mail: nmuschamp@lancaster.gov.uk Ref:

Extract of Investment Strategy 2007/08 – 2009/10

As Approved by Council 28 February 2007

1 Main Principles

1.1 The main principles governing the Council's investment criteria are the security and liquidity of its investments before yield, although the yield or return on investment will be a consideration, subject to adequate security and liquidity. The Council will ensure that:

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.
- It maintains a policy covering the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and the monitoring of their security.

2 Counterparty Criteria

2.1 The Head of Financial Services will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them for approval as necessary. These criteria are separate to those which determine Specified and Non-Specified Investments. Instead they determine which counterparties the Council can choose, rather than defining what the nature of the investments are.

- **Banks** – the Council will use banks which have at least the following Fitch or equivalent ratings:
 - **Short Term – F1** – *Indicates the strongest capacity for timely payment of financial commitments, may have an added '+' to denote any exceptional strong credit feature.*
 - **Long Term – A** – *denotes a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. The capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.*
 - **Individual / Financial Strength – C** – *an adequate bank. There may be some concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects (Fitch / Moody's only)*
 - **Support – 3** – *A bank for which there is a moderate probability of support because of the uncertainties about the ability or propensity of the potential provider of support to do so. (Fitch only)*
- **Bank Subsidiary and Treasury Operations** – the Council will use these where the parent bank has the necessary ratings outlined above.
- **Building Societies** – the Council will use all Societies with assets in excess of £ 1bn.
- **Money Market Funds**
- **UK Government** (including gilts and the DMO)
- **Local Authorities, Parish Councils etc**
- **Supranational institutions**

Monitoring of Investment Counterparties

The credit rating of counterparties will be monitored regularly. The Council receives credit rating advice from its treasury management consultants, on a daily basis, in respect of any changes in ratings, and counterparties are checked promptly. On occasion, ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Head of Financial Services. New counterparties which meet the criteria will, similarly, be added to the list.

Icelandic Investments - Credit Rating History

Kaupthing Singer & Friedlander							
£2 Million Invested from 16th May 08 to 15th May 09 at 6.0%							
DATE	FITCH			MOODYS			
	Short Term	Long Term	Individual	Support	Short Term	Long Term	Financial Strength
16 February 2006	F1	A	B	5	P-1	A1	C+
17 February 2006							
17 February 2006			B/C	3			C
31 August 2006							
28 February 2007						Aaa	
30 April 2007						Aa3	
15 May 2007	F1	A	B/C	3	P-1	Aa3	C
04 July 2007				2			
29 February 2008						A1	
29 February 2008							
01 April 2008	Negative Watch	Negative Watch	Negative Watch				
09 May 2008	F2	A-					C-
09 May 2008	Neg Watch Removed	Neg Watch Removed	Neg Watch Removed				
09 May 2008	F2	A-	B/C	2	P-1	A1	C-
16 May 2008	F2	A-	B/C	2	P-1	A1	C-
30 September 2008	Negative Watch	Negative Watch	Negative Watch	Negative Watch			
30 September 2008	F3	BBB	C				
08 October 2008	D	D	F		P-3	Baa3	D+
08 October 2008	Neg Watch Removed	Neg Watch Removed	Neg Watch Removed	Neg Watch Removed			

NOTES

Upgraded
Downgraded
Downgraded
Downgraded

TRADE DATE
Upgraded
Downgraded
Downgraded

REMOVED FROM LIST OF APPROVED COUNTERPARTIES
DATE OF TRANSFER

Downgraded
Downgraded

Icelandic Investments - Credit Rating History

Landsbanki Islands										
£1 Million Invested from 16th May 07 to 15th May 09 at 6.25%										
DATE	FITCH					MOODYS				
	Short Term	Long Term	Individual	Support	Short Term	Long Term	Financial Strength	NOTES	TRADE DATE	DATE OF TRANSFER
23 February 2006	F1	A	B/C	2	P-1	A2	C	Upgraded		
25 February 2007						Aaa				
04 April 2007						Negative Watch				
12 April 2007						Aa3				
15 May 2007	F1	A	B/C	2	P-1	Aa3	C-	Downgraded		
16 May 2007	F1	A	B/C	2	P-1	Aa3	C-			
30 January 2008						Negative Watch	Negative Watch	Downgraded		
28 February 2008										
29 February 2008						A2		Downgraded		
29 February 2008						Neg Watch Removed	Neg Watch Removed			
01 April 2008										
09 May 2008										
30 September 2008										
30 September 2008	F3	BBB	C	2				Downgraded		
30 September 2008	F3	BBB	C	2	P-1	A2	C-	REMOVED FROM LIST OF APPROVED COUNTERPARTIES		
02 October 2008										
07 October 2008	B	B	F	4	Negative Watch	Negative Watch	Negative Watch	Downgraded		
07 October 2008	Neg Watch Removed	Neg Watch Removed	Neg Watch Removed	Neg Watch Removed						
08 October 2008	D	D		5			E	Downgraded		

EXTRACT FROM FINANCIAL SERVICES PRT REPORT QTR 1

INVESTMENT INTEREST EARNED TO 30 JUNE 2008

Name	No	Start	End	Rate	Days	Principal	Interest	Interest Earned 2008-09
				%		£	£	£
2007/08								
Northern Rock (1 Yr Fwd Deal)	002	20-Apr-07	18-Apr-08	4.9800	364	2,000,000.00	99,327.12	4,912
Landsbanki Islands	004	16-May-07	15-May-09	6.2500	730	1,000,000.00	125,000.00	15,582
EBS B.S.	021	03-Jan-08	03-Apr-08	5.9000	91	2,000,000.00	29,419.18	970
Glitnir	FI02/023	14-Jan-08	14-Jan-09	5.7550	366	3,000,000.00	173,123.01	43,044
2008-09								
Bradford & Bingley	001	04-Apr-08	04-Jul-08	6.0500	91	2,000,000.00	30,167.12	28,841
EBS B.S.	002	04-Apr-08	06-Oct-08	6.0200	185	3,000,000.00	91,536.99	43,047
Kaupthing, Singer & Friedlander	06/07-I29	16-May-08	15-May-09	6.0000	364	2,000,000.00	119,671.23	14,795
Anglo Irish Bank Corporation	004	17-Jun-08	17-Jun-09	6.5600	365	3,000,000.00	196,800.00	7,009
Sub-Total							865,044.65	158,200
Call Accounts								
Abbey National								72,605
Allied Irish								25,588
TOTAL								256,393

For investments highlighted, the counterparties have since been downgraded and removed from the counterparty list (see report).

Re Bradford & Bingley, the investment has now matured & monies returned to the Council.

30 October 2008

Dear Colleague,

The purpose of this note is to update you on the Icelandic Bank situation and the work the LGA has been doing over the last three weeks.

You can find LGA's press releases and public statements on this issue at: <http://www.lga.gov.uk/lga/core/page.do?pageId=659902>

Recap of position

There are four banks with which local authorities made deposits that are either Icelandic companies or UK subsidiaries of Icelandic companies.

The four are:

- Landsbanki Islands hf, a public limited company incorporated under the law of Iceland (Landsbanki)
- Glitner Bank (Glitner), an Icelandic Bank whose parent company is in receivership in Iceland
- Heritable Bank plc (Heritable), a UK subsidiary of an Icelandic group. Heritable is in administration under UK law.
- Kaupthing Singer & Friedlander Ltd (KSF), a UK subsidiary of an Icelandic group. KSF is in administration under UK law.

Landsbanki and Glitner are in Icelandic receivership, whereas Heritable and KSF are in UK administration. The deposits are split across the four banks:

Landsbanki	£347m
Glitner	£208m
Heritable	£284m
KSF	£ 82m

The LGA has analysed how much money has been deposited by each type of English local authority within its membership:

Shire Counties	£274m
Shire Districts	£229m
London Boroughs	£148m
Unitary authorities	£106m
Metropolitan districts	£32m
Fire and rescue authorities	£1.4m

Requests for information from the LGA - breakdown across banks

A number of authorities have requested details about which fellow councils are exposed to different banks, allowing them to work out who they need to work with.

We are be happy to share with the councils affected a list of other authorities with deposits with the same bank. However, given the sensitivities in this area we will not include your council's name and share it with others if you opt out of this. **Please email us at lqfinance@lga.gov.uk by close Tuesday 4 November if you do not want your council to be included on this list.**

UK Administrators

A number of councils have raised queries about the differences between administration and receivership. Full guidance is available at: <http://www.companieshouse.gov.uk/about/gbhtml/gbw1.shtml>

We have had conference calls with the Administrators of UK subsidiaries of Icelandic banks (Ernst and Young); they plan to report back in mid November with a more detailed assessment how much authorities might receive and when this could be paid.

We noted that we did not wish to see a fire sale of assets, and that Administrators should focus on gaining maximum value for creditors.

The Administrators have asked that we have two groups of local authority councils who will act as lead creditors. The lead authorities include Counties, Districts, Police Authorities, and Welsh Councils. Authorities represented on the creditor groups are listed below:

Kaupthing Singer and Friedlander

- Cheltenham
- Bassetlaw
- Hertfordshire
- Peterborough
- Carmathenshire
- BANES

Heritable

- Plymouth
- Haringey
- South Ribble
- West Sussex
- Gateshead
- Caerphilly
- Westminster

Further details about the work of these creditor groups, and how they will liaise with other councils, will be circulate as soon as possible.

Icelandic receivers

We have been pressing HM Treasury to take this issue forward and they have provided the update below.

"Following conversations between the Chancellor and Icelandic Prime Minister, a delegation of officials from the Treasury and Bank of England held discussions with the Icelandic authorities. The recent round of discussions has ended but talks are not over and will be continued in the very near future. The aim of these is to agree a mechanism whereby the Icelandic government can honour its obligations to UK depositors and ensure the fair treatment of UK creditors."

We are in the process of setting up creditor groups for the Icelandic banks, with a view to them acting as a contact point with the Landsbanki and Glitner administrative committees. Again, further details about the work of these creditor groups, and how they will liaise with other councils, will be circulated as soon as possible.

Glitnir have recently published a press release giving an email address through which creditors are advised to get in touch, see: [http://www.glitnirbank.com/media/news-room/detail/item/7217/Glitnir_banki_hf_\(%22Old_Glitnir%22\)/](http://www.glitnirbank.com/media/news-room/detail/item/7217/Glitnir_banki_hf_(%22Old_Glitnir%22)/)

Accounting treatment of impairments

CIPFA is developing guidance on treatment of potential liabilities. Their draft guidance is attached as Appendix A [*Note to Audit Committee: this is not attached as it is a technical document but it is available for any member if they would like it*]

Information/advice will be needed at time budget assumptions are finalised, as well as later in the budget process – when S151 Officers are advising on the robustness of budgets, and adequacy of reserves. We will press the CIPFA and the Audit Commission to ensure authorities have consistent information and advice.

Ratings Agencies

We have called for a review of the role of credit agencies, given that the bank ratings remained largely stable over the summer before collapsing.

Parliamentary review and John Healey evidence to CLG select committee

The CLG Parliamentary Select Committee have announced that they will hold an inquiry into local authority investments. The LGA will be submitting a response to this, and will consult with its members on this. Details of the inquiry are available here:

http://www.parliament.uk/parliamentary_committees/clg/clg_200708_pn63.cfm

Ministers Hazel Blears and John Healey appeared in front of the Parliamentary Select Committee on 27th October. The LGA set out its objections in advance to the naming of individual authorities in that meeting.

Ministers did open the door to capitalisation of amounts owed – but this would be assessed on a case-by-case basis. They released a note after the meeting setting out the position as they see it <http://www.communities.gov.uk/statements/corporate/icelandicbanks>.

Audit Commission

We have agreed to undertake a joint review of lessons learned with the Audit Commission. That work has not started yet and we'll ensure colleagues are kept up-to-date with developments.

We will also press for consistent treatment of authorities facing Icelandic difficulties in CPA and other audit queries.

Lobbying

LGA continues to press for Government support for authorities who face financial difficulties. We are drafting a set of proposed actions which we believe would help authorities who face difficulties.

Communication

We are conscious it has been a while since we contacted you all directly and apologise for this. We hope to be able to provide regular updates on this issue in future, and are planning on weekly communications to council chief executives and leaders of council political groups. These will be based on more detailed communications which we intend putting out to our finance contacts.

A number of you have raised queries about similar issues, or mentioned pieces of work you are thinking of doing that would be of interest to other authorities. We propose creating a shared mailing list, to enable you to share information among yourselves. We would appreciate any views on this – in particular whether you find it useful.

The LGA finance team

Local Government Finance team

Policy Directorate

Local Government Association

t: 020 7664 3131

e: lqfinance@lga.gov.uk



Lancaster City Council

Audit Committee Briefing 17 November 2008



BUTLERS
Excellence in Treasury Consultancy

Structure of the Presentation

- ✓ What does Butlers provide to the Council?
 - ✓ Why did the Council have an investment exposure?
 - ✓ Investment rules and regulations
 - ✓ Assessing credit quality
 - ✓ What happened to the Icelandic banks?
 - ✓ The Council's position
 - ✓ What happens now?
-

What does Butlers provide to the Council?

We provide a wide treasury support service, comprising:

- ✓ An overview of the Council's financial position;
- ✓ Interest rate and economic advice;
- ✓ Debt portfolio reviews, borrowing and debt rescheduling;
- ✓ Technical advice on capital finance, including the provision of model treasury reports;
- ✓ Training; and
- ✓ ***Provide guidance on the Council's investment structure and credit rating information from the three main agencies, Fitch, Standard & Poors and Moody's.***

Why did the Council have an investment exposure?

Analysis of Balance Sheet		31-Mar-08		31-Mar-07	
	£'000	£'000	£'000	£'000	£'000
Fixed Assets					
Operational Assets	247,135		224,454		
Non Operational Asset	29,531		39,752		
Intangible Assets	678	277,384	485	264,748	
Revaluation Reserve	(6,803)		0		
Capital Adjustment Account	(173,052)		(172,867)		
Govt Grants Deferred	(51,896)	(231,791)	(46,401)	(219,325)	
Capital Financing Requirement (as per CIPFA)		45,593		45,423	

Borrowing – Funds longer term fixed assets

Why did the Council have an investment exposure?

Analysis of Balance Sheet	31-Mar-08		31-Mar-07	
	£'000	£'000	£'000	£'000
Funds				
Provisions	698		348	
Useable Capital Receipts	1,364		1,594	
Earmarked Reserves	11,796		8,713	
Balances	3,594		4,370	
Less FIAA Balance (unamortised prem / disc)	(980)		(1,159)	
Funds Available for Investment		16,472		13,866
Working Capital				
Creditors		13,302		10,811
less:				
Long Term Debtors	3		0	
Short Term Debtors	19,430		16,298	
Stocks and WIP	454		327	
Cash Held for Creditors		19,887		16,625
Resources / Cash Available for Investment		(6,585)		(5,814)
		9,887		8,052

Investments are generally shorter term

Investment Rules and Regulations – Treasury/Capital

Body	Requirements	Council Implementation
Government: LG Act 2003 - Investment Guidance MRP Guidance	Annual Investment Strategy MRP Policy	Approved through: Cabinet 19/2/08 Council 27/2/08
Professional: CIPFA Prudential Code Code of Practice	Prudential Indicators Treasury Management Strategy Treasury Management Practices	Approved through: Cabinet 19/2/08 Council 27/2/08 (TMPs do not need approval)
Bank of England: Non Investment Product Code (NIPS)	Compliance by Officers	Part of day to day TM practices

CLG Investment Guidance

- ✓ Explicitly introduced credit ratings
 - “ ..short-term sterling investments with bodies or investment schemes with "high credit ratings" will count as specified investments.”
- ✓ Whilst not ignoring other market data, these form the key basis for investment.
- ✓ Credit ratings are:
 - An independent assessment of an organisation
 - Gauges likelihood of getting money back on terms it was invested
 - Statement of opinion, not statement of fact – no guarantee
 - Measure of risk associated with investing with a counterparty

The Council's Main Criteria

- ✓ **Banks** – the Council will use banks which have at least the following Fitch or equivalent ratings:
 - **Short Term – F1** – *Indicates the strongest capacity for timely payment of financial commitments, may have an added '+' to denote any exceptional strong credit feature.*
 - **Long Term – A** – *denotes a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. The capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.*
 - **Individual / Financial Strength – C** – *an adequate bank. There may be some concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects (Fitch / Moody's only)*
 - **Support – 3** – *A bank for which there is a moderate probability of support because of the uncertainties about the ability or propensity of the potential provider of support to do so. (Fitch only)*

Butlers supply ratings from Fitch, Moody's and Standard and Poors

Some Conflicts in Practice

- ✓ Ideally use best credit ratings – AAA long term
 - But few institutions available
 - The credit ladder
 - higher rated institutions deal in large sizes
 - Less rated institutions will accommodate smaller deposits
- ✓ Spreading risk
 - Better to spread deposits – lower credit quality? or
 - Concentrate investments in 1 or 2 highly rated banks?
- ✓ Risk Vs. Performance
 - In practice Council's credit criteria is low risk, but ..
 - Continual push for better/out-performance
- ✓ DMA have been yielding 2%, deposits 2.5% to 4%+

Credit Rating Watch

- ✓ Much has been made of the early indicators of weakness in Icelandic banks through rating watch announcements:
 - Rating Watch: Ratings are placed on Rating Watch to notify investors that there is a reasonable probability of a rating change and the likely direction of such change. These are designated as "Positive", indicating a potential upgrade, "Negative", for a potential downgrade, or "Evolving", if ratings may be raised, lowered or maintained. Rating Watch is typically resolved over a relatively short period.

What Happened to the Icelandic Banks Ratings (Fitch)?

Deposit	£	Date	Ratings When Placed	Negative Rating Watch	Result of NRW	30/9/08 Rating Changes
Landsbanki	£1m	16/5/07 – 15/5/09	F1, A, B/C, 2	1/4/08, S/T, L/T, Ind	9/5/08 Ratings affirmed	F3, BBB, C
Glitnir FRA	£3m	14/1/08 – 14/1/09 (12/1/07)	F1, A, B/C, 2	1/4/08, S/T, L/T, Ind	9/5/08 F2, A- B/C aff'd	F3, BBB- F
K Singer & Friedlander FRA	£2m	16/5/08 – 16/5/09 (15/5/07)	F1, A, B, 3	1/4/08, S/T, L/T, Ind	9/5/08 F2, A- B/C aff'd	F3, BBB, C

FRA – Forward rate Agreement – Contract to place funds

What Happened to the Icelandic Banks?

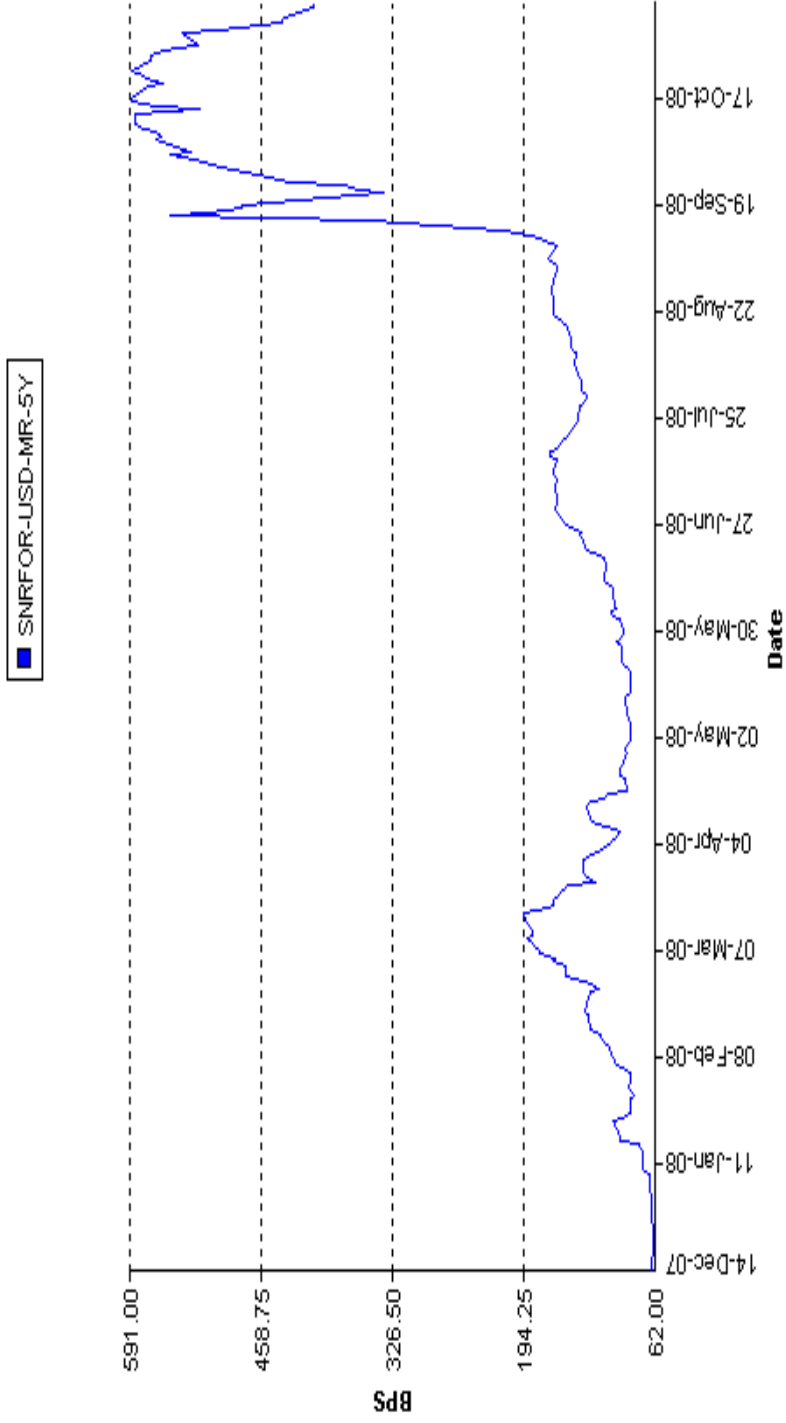
- ✓ April 2008 RWN, May 2008 affirmed or adjusted down a notch
 - ✓ Ratings changed materially 30/9/08, 7 & 8/10/08 frozen
- But..
- ✓ Underlying world banking position deteriorating
 - ✓ US sub-prime debt concerns increasing
 - ✓ Unknown exposure amongst banks, but
 - Icelandic banks little or no exposure
 - ✓ Creates fear over counterparty deposits
 - ✓ Inter-bank market becomes increasingly illiquid
 - ✓ Early October Icelandic banks lose liquidity

The Council's Position

- ✓ £6m in total due back £3m January 2009, £3m May 2009
 - £2m in administration with E&Y in UK
 - £2m KSF Ltd UK subsidiary of KSF
 - £6m in receivership under FME (Icelandic FSA)
 - £1m Landsbanki
 - £3m Glitnir
- ✓ E&Y due to report mid November 2008 with more detailed assessment
- ✓ FME:
 - Looking to re-launch the banks?
 - Will it cover existing deposits?



Compliment Credit Ratings - CDS

Reuters CDS - 39FF84 - General Electric Capital Corporation





What Happens Now?

- ✓ Work with LGA and wait for receivers/administrators
 - ✓ Depends on final payout
 - ✓ If less than principal + interest:
 - Accounting
 - Expected loss charged to I&E
- Then
- Government support?
 - May depend on reserves
 - Capitalisation directive?
 - Would allow charge to be spread over 20 years
 - Sufficient available & case by case?



Questions



BUDGET AND PERFORMANCE PANEL
WORK PROGRAMME

Matter for consideration	Officer Responsible	Meeting date
Demographic Data from Dukes Theatre	H.Cult.S	25.11.08
Mystery Shopper Exercise - feedback	H.I&CS	25.11.08
Star Chamber Updates	CD(F&P)	25.11.08
B&P Framework	CD(F&P)	27.01.09
PRT Reports – 2 nd Quarter	CD(F&P)	27.01.09
Partnership Scrutiny Pilot – Community Safety Partnership	H.CS	TBC
Partnership Scrutiny Pilot – Museums Service Partnership	H.Cult.S	TBC

Requests for Cabinet Member attendance

PRT Reports 2 nd quarter	Cabinet Member with responsibility for performance management efficiency	27.01.09
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Briefing Notes requested

Date requested	Topic	Officer responsible	progress
16.09.08	Mystery caller brief	H.I&CS	circulated