Medium Term Financial Strategy

2008/09 – 2010/11 – Update – February 2008

CONTENTS

INTRODUCTION

This document is the third update of Rossendale Borough Council's Medium Term Financial Strategy (MTFS) and covers the period up to 2010/11.

A financial strategy is not an end in itself it is the means by which the Council shows how it will use the resources available to it to deliver the policy objectives which it has set following consultation with the communities which it serves. For this reason, as in previous years, the early parts of this document concentrate on understanding the policy context within which this strategy is framed, rather than focussing on numbers. It is important to understand that the numbers are merely the mathematical expression of a series of policy decisions and choices and as such are far less important than is often assumed.

By agreeing the key assumptions which are highlighted throughout this strategy the Council has set its financial boundaries and committed itself to living within them and acting prudently.

Rossendale continues to be a Council on an improvement journey, which is bringing about a transformation of service provision and customer satisfaction As we continue this journey the financial strategy will allow the Council to demonstrate both the direction of resources into the priorities of the communities it serves and improvements in value for money.

The Council has the means to deliver improvement in its own hands. This strategy sets out how we are going to use them.

POLICY CONTEXT

About this section

This section of the strategy sets out broadly the Council's policy direction. This is important for the financial strategy because it has to facilitate the achievement of the Council's policy objectives

We are a small council, with big ambitions – for the Council itself, for our customers, and for the borough as a whole. Achieving our ambitions will require us to work effectively with a range of partners from the public, private and voluntary sectors to champion the needs of Rossendale and provide better outcomes for local people.

Rossendale – A Cracking Place to Live

The Council and the Rossendale Partnership (the Local Strategic Partnership for the borough) share a vision for the borough's future 'Rossendale – A Cracking Place to Live'. The vision was developed in consultation with local people, who told us what was important to them and what they wanted to see for the future in Rossendale. This is set out in 'Rossendale Alive', the borough's Community Strategy (2005 – 2020), developed by the Rossendale Partnership. This is a long-term strategy that aims to improve the quality of life in Rossendale and is set out under the eight strategic objectives illustrated in the chart below. The following eight objectives represent the key themes of the borough's Community Strategy – 'Rossendale Alive'.

Achieving the vision - Rossendale Council's Strategic Framework

Through its 'Community Leadership' role, the Council is the lead partner in the effective delivery of the vision for Rossendale. The council contributes to all of the objectives and takes the lead on several of them. The objectives in the community strategy are reflected in the Council's overarching strategic framework which includes the eight objectives of the Community Strategy, together with a further three objectives belonging solely to the Council. These additional objectives reflect the Council's focus on being a well-run Council that is fit for purpose and committed to continual improvement in all it does.

• Improvement – the continuous provision of high quality public services built upon the foundation of finance, risk, performance, procurement and human resources management.

• Customers – being responsive and proactive to meet the needs of all our customers.

• Partnerships – increasing our capacity to deliver through effective partnerships. Together, these eleven objectives make up the Council's over-arching strategic framework as shown in the chart below:

The Community Strategy 8 Shared Objectives

1. Community Safety – a place where people do not live in fear of crime where	4. Environment – a place which has attractive rural settings, a fantastic street scene and is easily accessible for all	7. Community Network – a place where all opinions count and people respect and celebrate difference in gender, sexuality, race, age, ability, culture and religion
2. Health – a place where vulnerable people are looked after and all residents can look forward to a long and healthy life	5. Housing – a place where people have a choice of high quality housing which is affordable for all	8. Culture – a place which is a great place to live for people of all ages and is widely accepted as a major place to visit
3. Education – a place where people of all ages will be well educated and capable of providing business with the human resource to compete in highly competitive global markets	6. Economy – a place where job prospects and wages are high and the cost of living is low	*To see the full document visit www.rossendalealive.co.uk*

Strategic Framework for Rossendale

Achieving the vision - Rossendale Council's Priorities

On a regular basis, the Council reviews the things to which it wishes to devote its time, effort, and resources. These are the Council's priorities.

The priorities are supported by the results of quantitative consultation as well as by the longer term goals set out in the Community Strategy. By adopting these clear and relevant priorities, the Council is able to focus upon those areas of greatest importance, and by making progress against the various priorities, the Council will, ultimately, achieve the objectives as set out in the Council's Strategic Framework.

The Council's priorities for 2007 – 2010, together with the strategic objectives that they relate to, are:

- Delivering quality services to customers (Customers, Improvement)
- Delivering regeneration across the borough (Economy, Housing)
- Keeping our Borough clean and green (Environment)
- Promoting Rossendale as a cracking place to live and visit (Economy)
- Improving health and well being across the borough (Health, Housing)

Being a well-managed Council demonstrated by;

- Strong financial management and the delivery of value-for-money services (Improvement)
- Equipping members to fulfil their role as leaders in the community (Community Network)
- Effective human resource management and maintaining a workforce with the skills to deliver the priorities for the borough (Improvement)

"By identifying clear priorities and action to back them up we can make the greatest possible impact on the services we provide and the quality of life for everyone in the borough"

Our corporate priorities together with our objectives and outcomes for our customers and communities are as follows:

Corporate Priority 1

Delivering Quality Services to Our Customers

Objectives

Contributes to the Corporate Objectives of: Customers, Improvement, Partnerships, Community Network

We are working to achieve the following outcomes for our customers and communities:

1.1 Accessible, well used and high quality public services delivered through a wide range of efficient channels

1.2 Greater community involvement in the design and delivery of local services

1.3 Stronger relationship between Council and Communities

Corporate Priority 2

Delivering Regeneration Across the borough

Corporate Objectives

Contributes to the Corporate Objectives of: Economy, Environment, Health, Community Network, Culture, Customers, and Improvement.

We are working to achieve the following outcomes for our customers and communities:

2.1 A thriving local economy

2.2 Well performing town centres

2.3 Well-balanced housing market

Priority Projects:

- Development of the Health Offer
- Implementing the Leisure White Paper
- SmokeFree Rossendale
- Healthy Business Project
- Adrenalin Gateway

Corporate Priority 3

Keeping our Borough Clean and Green

We are working to achieve the following outcomes for our customers and communities:

3.1 People feeling safer in their communities

3.2 Better environment for all

Corporate Priority 4

Promoting Rossendale as a cracking place to live and visit

Corporate Objectives

Contributes to the Corporate Objectives of: Economy, Environment, Culture, Improvement, Partnerships

We are working to achieve the following outcomes for our customers and communities:

4.1 More people satisfied with Rossendale as a place to live

4.2 Thriving Visitor Economy

4.2 Improved awareness and understanding of the Council and its achievements

Corporate Priority 5

Improving health and well-being across the borough

Corporate Objectives

Contributes to the Corporate Objectives of: Health, Community Network, Culture, Customers, Improvement

We are working to achieve the following outcomes for our customers and communities:

5.1 Increased life expectancy

5.2 Increased levels of activity by people living in the borough

5.3 Improve well-being of local communities

Corporate Priority 6

A Well Managed Council

Corporate Objectives

Contributes to the Corporate Objectives of: Customers, Community Network, Improvement, Partnerships

We are working to achieve the following outcomes for our customers and communities:

6.1 Strong financial management and the delivery of value-for-money services

6.2 Councillors equipped to fulfil their role as leaders in the community

6.3 Effective human resource management and maintaining a workforce with the skills to deliver the priorities for the borough

Links to other strategies

Given the above corporate priorities, objectives and ultimately outcomes for customers and communities, the Council has developed a number of strategies and polices. In considering the MTFS it is appropriate to identify in particular the financial links to these other key strategies and policies.

Amongst others, the key areas area as follows:

Strategy / Policy	Location	Financial implications
Sustainable Community Strategy	Due 2008	Sets the framework for priorities across the whole community and for all participants in the Local Strategic Partnership and therefore significantly influence the allocation of financial resources.
Locality Plan	Agreed December 2007	This joint plan with the County Council indicates areas where working together will more effectively address the issues identified within the Sustainable Communities Strategy. This plan is fundamentally about using existing resources better, rather than generating additional resource requirements. However, as the process evolves it may mean that resources are shared between the two councils in a different way.
ICT Strategy		This strategy sets out the requirements for a robust ICT infrastructure and identifies key elements of system replacement and renewal going forward. Resource requirements will largely be in terms of

		capital resources and investment over and above that currently programmed will need to be justified in terms of a business case identifying revenue savings generating a specified pay back.
Workforce Plan, Human Resources Strategy, Organisational Development Plan		All these strategies look to provide the Council with a sustainable and skilled workforce equipped to meet the organisation's needs in the coming years. In terms of resourcing these strategies the key element is the existing training budget, together with the creative use of existing staffing budgets as natural turnover of staff occurs and the development of programmes such as apprenticeship schemes which will allow issues of balance in the workforce to be addressed. As a small council Rossendale could be particularly affected by skill shortage and recruitment and retention issues. These may have the effect of encouraging grade drift or increased use of market supplements. These issues will have to be dealt with within service budgets.
Asset Management Plan / Capital Strategy		These bring together the Council's processes for identifying the need for and prioritising capital investment and for identifying assets which are not contributing to the corporate priorities. There is an impact on financial planning in terms of the scale of backlog maintenance required, but also in terms of the ability to utilise assets either to provide capital receipts, or generate an income stream.
Economic Strategy		The particular impact of this strategy is likely to be in terms of developing different ways of delivering some elements of the economic development function, and also in terms of identifying council owned sites for use for economic development purposes. The use of such sites might in some cases mean potential capital receipts being either foregone or delayed.
Local Development Framework		As this governs the spatial development of the Borough it can have a significant influence on the Council's ability to raise capital receipts through pro active land disposal. However, policies within the LDF can also increase the Council's ability to generate resources to develop facilities for example through s 106 contributions for play

		equipment and open spaces. The production of the LDF is in itself a costly process and one which is currently highly dependant upon specific grants. This is an issue which the Council will need to address within the planning period.
Open Spaces and Play Strategies		These strategies set out plans for the development and enhancement of these facilities up to 2020. The strategies identify very significant resource requirements some of which are reflected in the Council's capital programme. The strategies themselves identify that the bulk of the resource requirements will need to be met from external funding either in terms of s 106 contributions or other forms of grant. So far around £2m has been levered in for this purpose.
Leisure White Paper		This sets out aspirations and investment requirements for the Council's various leisure facilities. These are principally of a capital nature and to the extent that they represent backlog maintenance have been factored into the future capital programme. Major investment needs are identified as requiring external funding or the identification of capital receipts from malor disposals

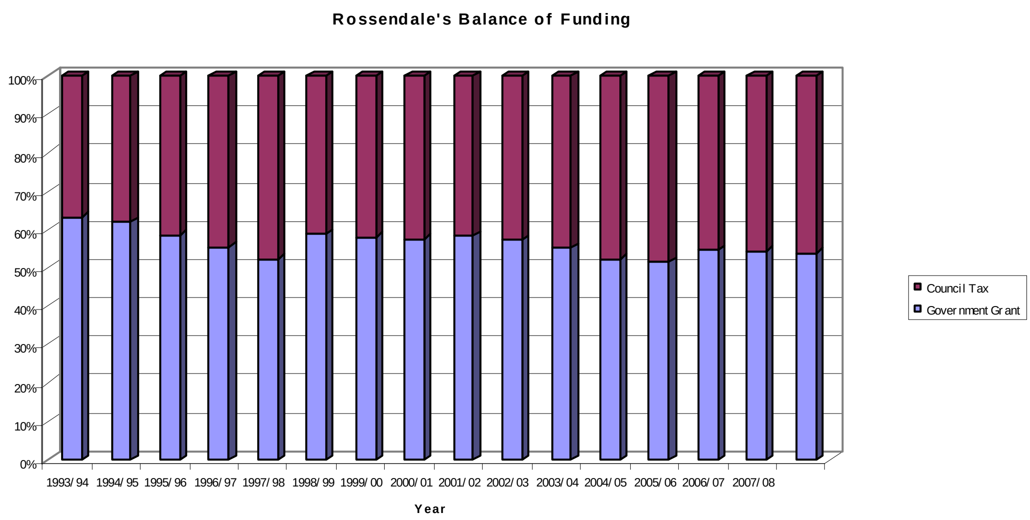
FINANCIAL CONTEXT

> ***About this section***
>
> *This section briefly gives details of the Council's current and historic levels of resources and the way in which they have been utilised.*
>
> *These facts are important because in some cases historical levels of funding and the reasons for them can provide pointers for the future. In addition, current and past spending patterns can illustrate the degree of linkage between spending and policy priorities*

Revenue Spending and Resources

In order to understand how the Council is going to move its finances in the direction desired by elected members it is necessary to understand where we are now and where we have come from. By understanding how spending in Rossendale differs from accepted norms it is possible to understand the scale and potential difficulty of change required to meet the Council's financial objectives.

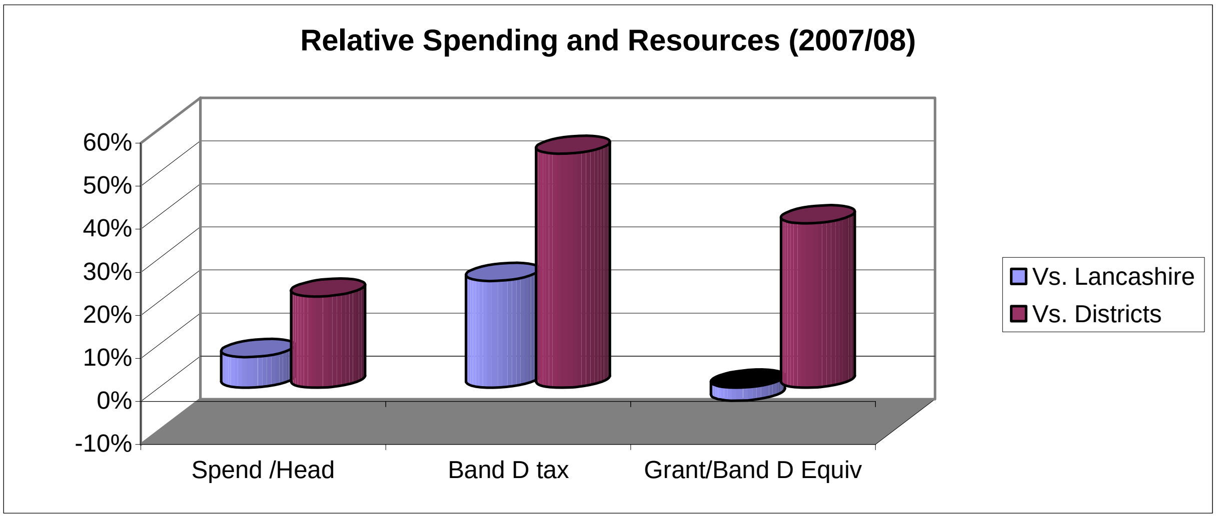
It is, perhaps, helpful to first examine the balance between central and local funding in Rossendale, as this balance is at the heart of much debate over the system of local government finance in England. This is illustrated in the graph below:



(Source – Budget Working Papers)

What this chart shows is that Rossendale began the Council Tax system meeting almost 37% of expenditure from local resources, and that this figure has risen to nearly 46% for 2008/09. The latter figure is not untypical for District Councils following the changes to fully fund Housing Benefit from national resources. Thus there is nothing out of the ordinary in the split of funding in Rossendale between local and national taxpayers, indeed given the legacy of the universal capping system it would have been unusual were this not to be the case.

However, what might be less typical is the degree to which Rossendale's spending differs from the average. This is illustrated in the chart below:



(Source CIPFA Finance and General Statistics 2007/08)

What this illustrates, quite convincingly, is that Rossendale both spends and taxes more than other districts both in Lancashire and nationally, while receiving much the same grant as its Lancashire neighbours and considerably more than the average district. These differences are further illustrated in the table below:

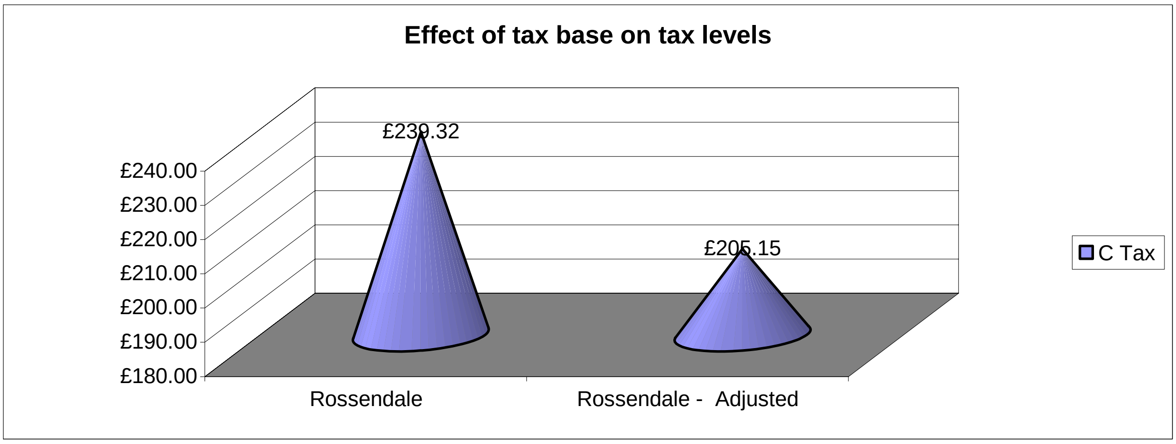
Cash Differences Between Rossendale and Regional and National Averages

Compared to	Spending £000	Council Tax at Band D £	Grant £000
Lancashire:			
2006/07	+779	+49.20	-94
2007/08	+729	+46.62	-265
All English Districts			
2006/07	+2,168	+85.37	+1,659
2007/08	+2,245	+84.30	+998

(Source CIPFA Finance and General Statistics 2007/08)

Clearly Rossendale is a more deprived area, than the average district, or it would not receive so much funding through the grant system, although the difference from the level of grant for the average district is reducing over time. However, the Borough has close to the average levels of deprivation within Lancashire and yet spends considerably more than the average for the area. These factors are then automatically translated into Council Tax levels, where Rossendale has amongst the highest district council taxes in the Country.

There is though, a fundamental difference in the characteristics of Rossendale and the average district. This is related to the make up of the taxbase. In Rossendale in 2007/08 over 50% of properties were in Band A. In the average district this was 19%. The graph below illustrates the effect this has on the level of Rossendale's Council Tax, through showing what the Council Tax in Rossendale would have been in 2007/08 if the tax base had mirrored the district average mix of property bandings.



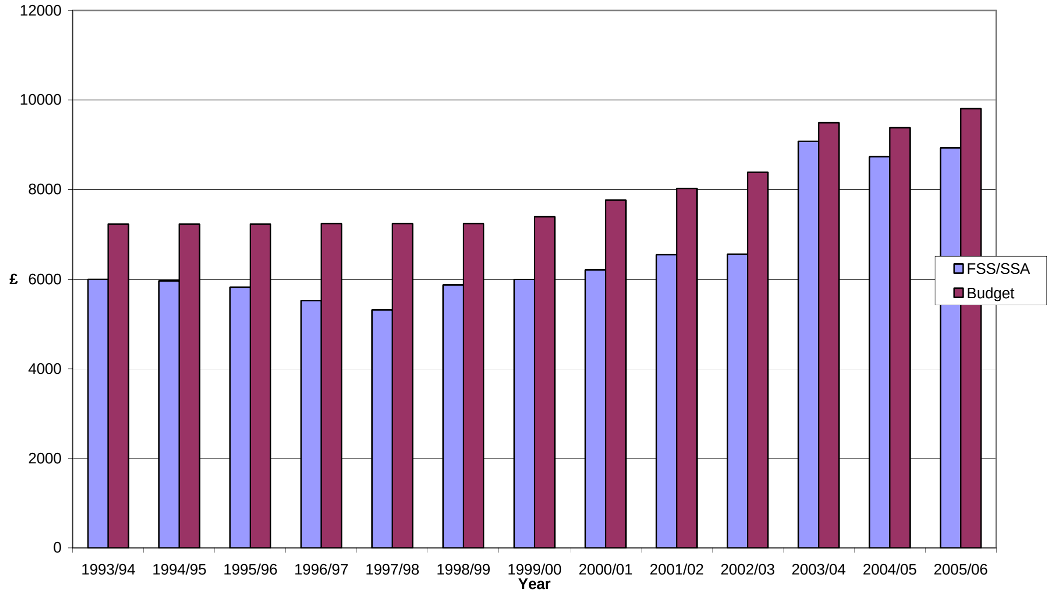
(Source CIPFA Finance and General Statistics, DCLG Local Government Finance Website)

It is the case that this difference in the tax base is mitigated to some extent through the grant system, although as indicated above the degree to which Rossendale receives more grant than the average district is reducing.

Historically it has been argued that Rossendale is under-funded relative to other local authorities. The figures for grant levels set out above would tend to indicate otherwise. However, this does not mean that this point is entirely without merit. Historically district council services have been significantly less generously funded than service such as Education and Social Services, which have received much higher priority from central government within the grant system. As a district which receives a higher than average level of grant it is therefore the case that Rossendale will have suffered more than the average from the overall national under-funding of district councils. But, the situation in Rossendale is more complicated.

Prior to 2003/04 most district councils spent at a level greater than the Government's assessment of the cost of an average level of service in their area (a figure then called the Standard Spending Assessment (SSA)). The situation changed in 2003/04 when the Government introduced new grant allocation formulae which contained a more realistic assessment of districts' spending needs and replaced the SSA with Formula Spending Share (FSS), although this remained in essence an estimate of the cost of an average level of service in the area. Overnight large numbers of districts found themselves spending less than their FSS. In Rossendale while the gap between FSS and spending narrowed from nearly 28% to just under 5% it did not disappear, and the gap has subsequently increased again to nearly 10%. This pattern is illustrated in the chart below (please note that this data series cannot be extended due to further changes in the grant system from 2006/07 onwards).

Spending and Assessed Need Compared



(Source Budget Working Papers, Revenue Support Grant Settlement)

It is clear that there is some factor within Rossendale's spending which is resulting in much higher than average spending and consequently higher than average levels of council tax. Once it is understood where this factor is it will be much easier for elected members to take a view on how the decisions required in order to bring spending and taxation more into line with relevant averages.

Appendix 1 sets out service spending per head comparators for 2006/07 between Rossendale and the average English District, and the 15 statistically most comparable districts. While it can always be argued that such comparisons are invalid because of the particular organisational or accounting quirks of one Council, or another, an investigation such as this needs to start somewhere.

The table below illustrates a selection of the more significant differences between Rossendale and the district average, based on 2007/08 data.

	Rossendale v Average District		
Service Area	£/head	%	£000
Culture and Heritage *This heading includes facilities such as museums, public halls and arts centres.*	-4.40	-75.0	-290
Sport and Recreation *This heading includes both indoor and outdoor leisure facilities*	-6.47	-52.2	-427
Parks and Open Spaces *This heading covers both formal parks and amenity open spaces, but not specific recreational facilities such as football or cricket pitches.*	+5.37	+53.8	+354
Street Cleansing and Litter *This heading covers both manual and automated street cleaning operations, emptying of street litter bins etc.*	+8.73	+93.0	+576
Planning *This heading includes Development Control, Building Control and Forward Planning.*	-4.22	-29.0	-279
Parking *This comprises the costs of off street parking, where the average district generates a net income.*	+8.37	-114.0	+552

(Source CIPFA Finance and General Statistics 2007/08)

It should be understood that difference from the norm in terms of spending patterns is acceptable, and can actually reflect well on a local authority. However, this can only be the case where such difference is understood. Using the figures above there are a number of potential explanations for difference, which it is worth analysing as they will provide useful information in support of future work on value for money.

1. In relation to a number of the service areas indicated as spending less than the average the Council has in previous years made specific decisions about their priority for resources. Thus previously, culture and heritage, and planning must generate investment through additional external resources. This is a conscious setting of priorities supported by the Council's overall policy stance.

2. Similarly in the case of parking the Council has, following a detailed review by Overview and Scrutiny made a conscious decision not to introduce off street parking charges. Again this provides a legitimate policy reason for difference.

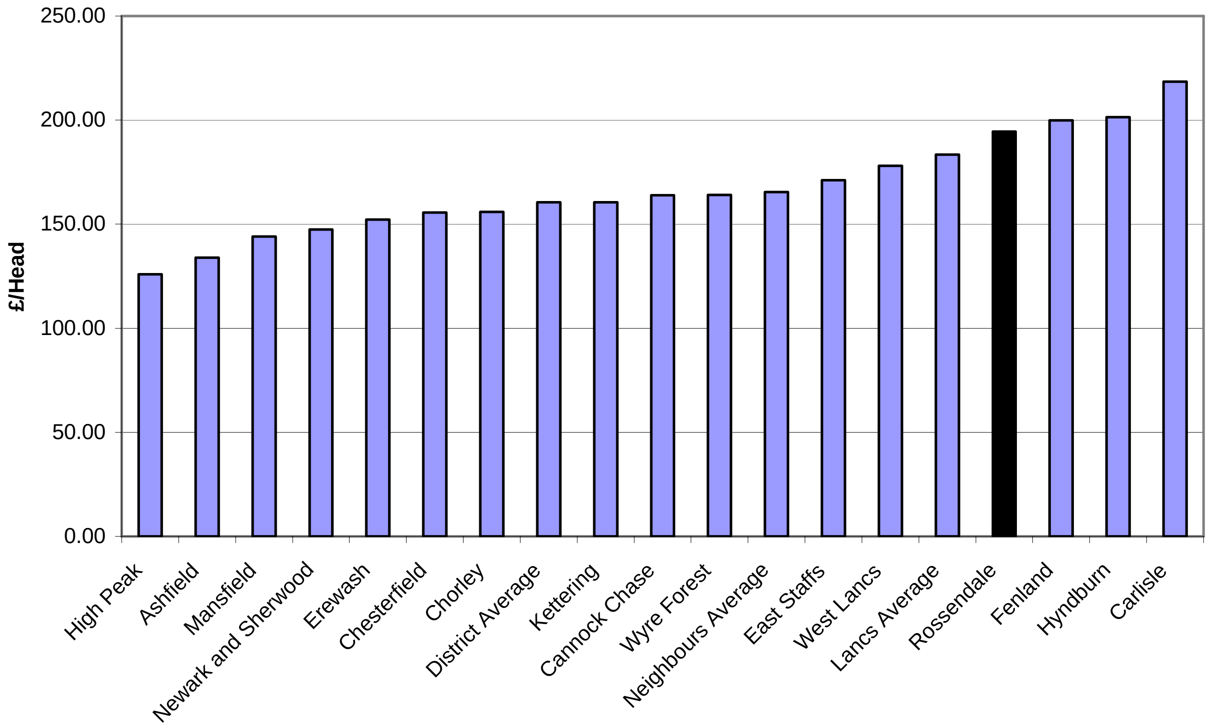
3. In the case of parks and open spaces there is an historic legacy issue which causes higher levels of expenditure. The Council has inherited a major park in each main town, together with a wide range of smaller facilities. Clearly the more facilities that exist the greater the volume of activity necessary to maintain them and the greater the cost. This provides a legitimate difference. There are similar legacies in a number of areas, e.g. cemeteries. It is also the

case that in many comparable Councils some facilities such as these would be provided by Town or Parish Councils. Given the low penetration of parishes within the Borough this is not the case in Rossendale.

However, it may be the case that high spending in some areas is not associated with any of these, or with a higher level of performance. Thus, based on 2007/08 data, the best Council within our nearest neighbour cluster (as described by the Audit Commission) spends £6.03 per head on Street Cleanings and Litter while Rossendale spends £18.12, with an average spend across all the neighbours of £9.65. This information needs to lead the Council to questioning the costs and working practices that lead to such differentials. Thus in the example given it may be that there are differences in the way in which resources are deployed and directed that lead to better performance for less cost. The Council therefore will need to identify the areas of greatest difference from cost and performance norms and use benchmarking techniques to identify where improvements in both cost and performance can be made.

Thus it is possible to see that some of the differences in service spending levels between Rossendale and the average can be sensibly explained and some do, in fact, represent a conscious expression of policy priorities. Indeed compared to the Council's 15 nearest neighbours net revenue expenditure ranks 13 out of 16 and is slightly above the median. This is illustrated in the graph below.

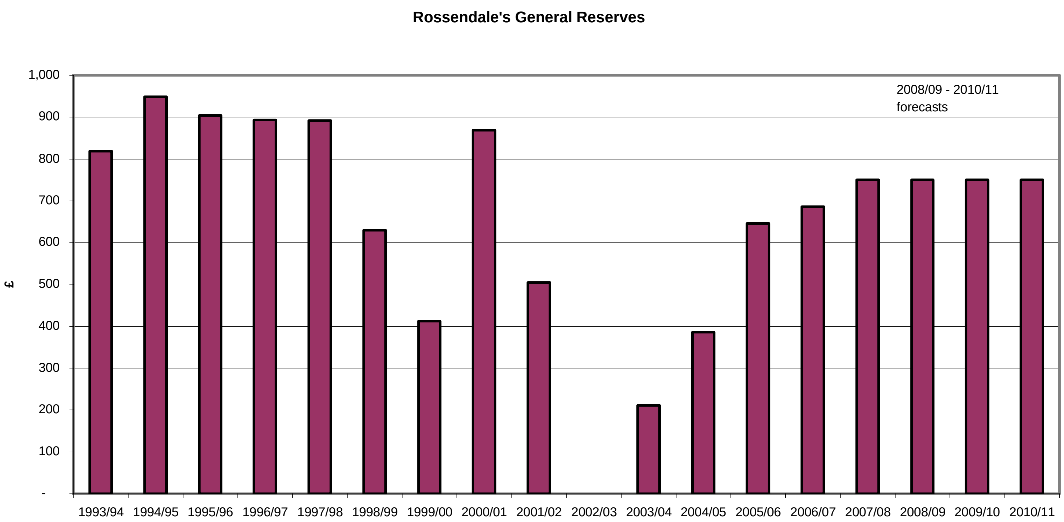
Total Service Expenditure Comparison 2007/08



(Source CIPFA Finance and General Statistics 2007/08)

While spending on services is not out of line with comparators the Council's total budget requirement and hence level of Council Tax as indicated above, are. The difference between service expenditure and budget requirement is largely made up of capital financing and interest costs and movements on reserves. The Council through the Stock Transfer process has addressed the issues arising from high levels of uneconomic long term borrowing and is currently free of long term external debt, although there remains a Capital Financing Requirement (a type of internal borrowing) The Council has taken steps to reduce these costs on a temporary basis but will need to consider how to permanently achieve this reduction.

The other element of "below the line" cost where the Council appears to be different to the average is in relation to movements on reserves. As part of its recovery plan Rossendale has, quite properly, had to budget to increase its reserves. The average District, on the other hand, has been using reserves to support expenditure. The position in relation to Rossendale's reserves is illustrated below



(Source: Budget working papers)

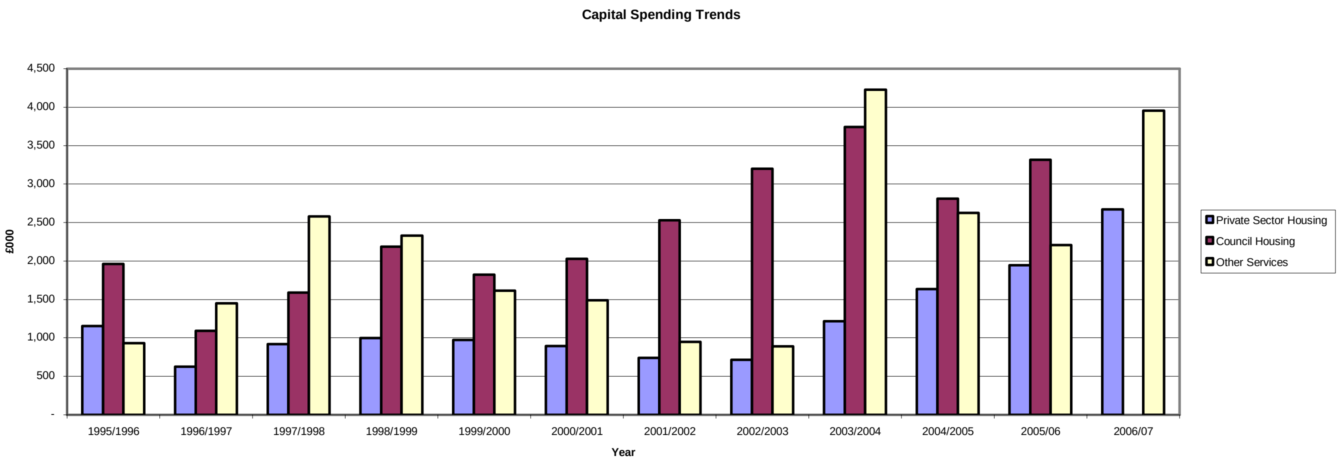
The maintenance of reserves sufficient to help the Council manage the risks it faces is an important measure of financial stability for the organisation and the above graph makes evident that significant progress has been made, in achieving this, in recent years. Policies set out elsewhere in this strategy follow best practice in explicitly linking reserves to risks.

Revenue Spending and Resources – Questions for Councillors

1. *Having set a course for bringing Rossendale's element of the Council Tax Bill Closer to the average for District Councils, how quickly should the Council aim to achieve this?*
2. *If the rate at which Council Tax is to move closer to the average is to increase what elements of the budget will be reduced to facilitate this?*
3. *Should the Council accept spending levels in excess of the average for District Councils in areas where performance is below average, and if not should targets for savings to bring costs to the average over the strategy period be set?*

Capital Spending and Resources

While revenue spending is the most publicly visible element of the Council's finances because it is directly paid for through the Council tax it is important not to lose sight of the Capital Programme and the impact which it can have both on the overall financial position, and the nature and quality of the services provided by the Council. The graph below shows the historic pattern of capital expenditure in Rossendale.



(Source Capital Programme Working Papers)

The preponderance of spending on housing over the whole period would be typical of most District Councils. In particular in recent years this has been boosted by the advent of the Major Repairs Allowance (in relation to Council Housing) and funding from the Elevate programme. However, from the point of view of this strategy the key issue is both the level of investment in EPCS (Environmental, Protective and Cultural Services) services (all the Council's non-housing services) and its impact upon service provision and the quality of the asset base.

Much work has been done to ensure that the Council has a clear view of the quality of its asset base and the relevant backlog maintenance requirements. These are set out in detail in the Asset Management Plan.

There is considerable pent up demand for facility improvement, particularly in the area of leisure on which the Council has published a White Paper indicating its future intentions. There is also a significant capital resource requirement which has been identified in order to address the Council's long term accommodation requirements, although the steps already taken to improve the Council's accommodation have resulted in a reduction in future capital expenditure requirements in terms of asset renewal and refurbishment.

It is also generally acknowledged that the Council's ICT provision has been behind the pace in a number of areas, and it is likely that further resources in addition to the IEG funding from the Government received in previous years will be required in the future. Specific resources have been earmarked for this within the settlement arising from the Stock Transfer process.

Thus there is likely to be a need to focus investment in coming years more internally than has been the case previously. Historically there has been a preponderance of finance coming from specific grants associated with individual projects, principally focussed on regeneration initiatives. Clearly the Council will want to continue to secure such external funding. However, very little of the capital resources allocated to the Council's core services has been available to either improve the asset base or the quality of front line services, in part as a consequence of the restrictions previously in place on borrowing. Similarly the opportunity to use capital investment to realise revenue savings has not been taken to any great degree. The use of revenue contributions and repairs and renewals reserves to finance expenditure has also reduced significantly as a result of the pressure on the Council's revenue budget.

The Council has had a policy of using right to buy receipts to finance the Private Sector Housing programme. In policy terms there is likely to be a significant change in the private sector housing programme over the planning period. In particular while renewal activity focussed on driving up housing standards and reducing the number of empty properties is likely to remain important the need to increase the supply of affordable housing is very rapidly moving up the agenda for the Council.

Such a policy is logical response to the capital finance environment at the time. However, following the transfer of the Housing Stock and the replacement of Supported Capital Expenditure (borrowing approval) for housing with specific capital grants this policy needs review and new policies are set out elsewhere in this strategy.

While the process of housing stock transfer has allowed the Council to reduce the historic debt burden and make specific resources available for capital spending there is very significant demand for capital investment aimed at addressing the Council's policy objectives over the planning period and beyond. Moving back into borrowing on a significant scale that is not financed through revenue savings resulting from the investment is unlikely to be achievable given the priority attached to moderating the rate of increase in Council Tax. Therefore it will be important that the Council look critically at each asset it holds and evaluate whether or not it should be retained or disposed of in the context of the contribution which it makes to the achievement of the corporate objectives.

Capital Spending and Resources – Questions for Councillors

1. *How quickly do members wish to realise their aspirations for investment in significant capital projects?*
2. *If significant capital projects are to be delivered without borrowing which would impact upon the Council Tax then are members prepared to support a programme of realising assets not relevant to current priorities in order to create new assets?*
3. *To what extent are members prepared to realise the value of the Council's assets?*

THE FINANCIAL PLANNING AND FINANCIAL MANAGEMENT PROCESS

About this section

This section sets out the financial planning and financial management processes adopted by the Council.

These are important because they provide a framework of rules within which managers can plan and manage resources. They also allow for the policy debates of elected members to be informed by the views of the wider community obtained through consultation.

The Financial Planning Process

Financial planning is the process of determining how much the Council wants to spend on delivering its policy objectives over the coming years. Key elements of a sound financial planning process are:

- Clear rules which are accepted by all participants
- A focus on priorities and outcomes, rather than the cash inputs
- An easily understood approach which demystifies finance and responds to the results of consultation

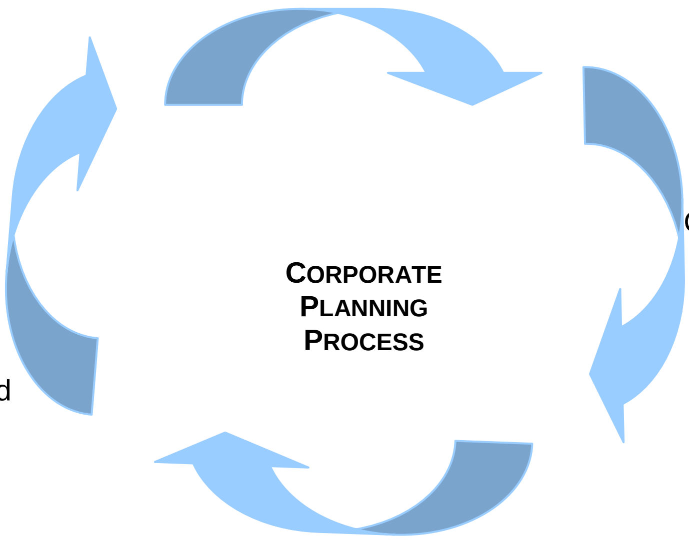
The financial planning process is one of three strands, which make up the Council's integrated business planning process. The overall corporate planning process, which the Council should aim for is set out in the diagram below:

April-June

Evaluate Previous Year

Consultation on Draft Budget and Business Plans via Scrutiny and the Public, leading to budget decisions

January-March



July – September

Assessment of Needs
Financial Forecasts
Consultation on priorities
Corporate Plan

Feedback Consultation
Allocate Resources
Draw up draft balanced Budget

October - December

Key elements throughout this process are:

- Rigorous review and quality checking of output from activities carried out at service level

- Clear policy priorities and non-priorities articulated by elected Members

- Close liaison between Executive Members and Service Heads

The detailed process for future years is set out in the diagram overleaf.

A key driver within the financial planning process at the beginning of this planning period is the opportunity presented by the Community Strategy for the Council to reassess its priorities. This area is being further developed during 2008 in the form of a Sustainable Community Strategy. In particular this presents the opportunity for the Council to determine areas which are not priorities and which will be examined in terms of disinvestments over the course of the planning period.

Medium Term Financial Strategy 2008/09 – 2010/11

Rossendalealive BOROUGH COUNCIL

MAY

JUNE

Corporate Improvement Plan to reflect Community Strategy key outcomes & outputs identified

Cabinet Budget Review Process to:
Identify areas for:
- **No growth**
- **Growth bids**
- **Dis-investment**

JULY

SEPT

Detailed work unde

Consultation with stakeholder on priorities if required

Detailed budget work

Continuation budget & outcomes/outputs identified

Business Planning

Revision of Service Objectives/Priorities

OCT

NOV

DEC

Draft Policy Budget and Headline Unit Tasks Produced

Initial Consideration by Cabinet

Revise draft Policy Budget and overall Business Plan

Receipt of Settlement Figures

JAN

FEB

Executive Launches Proposed Budget for Consultation

Consultation

Budget set at February Council

IMPLEMENTATION

Revise Detail of Unit Business Plan

Final Unit Business Plans approved by 31.3, reflecting budget decisions

The financial planning process will need to take account of:

- Likely levels of inflation, particularly pay awards
- Longer term liabilities such as pension costs
- General economic circumstances which might affect demand for services such as benefits, and levels of grant.
- Contract price steps and where there are performance driven elements in the pricing, mechanism contract performance, or where contract prices are indexed.
- “Demography” which translates as the effect of population change and housing development on the need to provide services, e.g. additional streets to clean, waste to collect, open spaces to maintain
- Major changes such as the previous Housing Stock Transfer and the future impact of Single Status on the pay bill
- The revenue effects of the capital programme
- New Government advice and initiatives (Council Tax increase limits, Gershon, The raising of incidental revenues and Council charging policies, etc)

The process also needs to allow for the active management of the risks facing the Council and for the maintenance of an appropriate balance between spending and taxation.

Financial planning is not a one-off exercise; rather it is an iterative process. All the figures and assumptions contained in this strategy will be kept under review and annual updates will be published alongside the budget.

Financial Management Process

Financial management in this context is the process of managing the budget during the year and the framework of rules within which this is done. These rules are rooted in the Council’s overall management approach.

The Council has adopted an approach to financial management which sees it both as a key element of performance management and as fundamental to ensuring the Council can deliver against its priorities. This approach is underpinned by two key principles.

- Accountability – making clear the responsibility of those making financial decisions for those decisions
- Transparency – providing the clearest possible information and promoting he widest possible understanding of financial issues

The following are the key elements to the Council's financial management process.

- Service's financial performance will be measured against the net budget excluding central recharges.

- In year policy initiatives contained within the cash budget should not be implemented prior to formal endorsement by the Cabinet, or Council as appropriate.

- Provisions for doubtful debts will be charged against the service area originally credited with the income.

- Service's will be able to retain up to 50% of any year end underspend (measured as above) for specifically approved service improvements, subject to:
  - There being no corporate issues requiring overall expenditure restraint, such as a need to replenish reserves, or the need to address issues with demand driven budgets such as benefit payments or concessionary fares, or corporate budgets such as capital financing and interest costs.
  - The separate carry forward of expenditure committed to projects in the year, which will be treated as ring fenced for such projects.

- Savings in year arising from corporate initiatives (e.g. the buying out of an operating lease agreement, funded from capital resources) will not be retained by services.

- Overspends by services will be carried forward into future years for recovery by the service.

These will be developed further over the strategy period in line with the Council's assessment of improvement needs in line with the CIPFA Financial Management Model and the annual Use of Resources action plan. In particular the following areas will be addressed:

- The development of a clearly defined set of roles and responsibilities in the Financial Management process, agreed by elected members. This will include the roles of members, which will be reflected in appropriate role definitions.

- The continued development of the competency frameworks for managers and finance staff in relation to financial management, linked to the Council's overall approach to competencies.

- The ongoing delivery of targeted training for staff involved in the financial management process at all levels.

All the above capitalise on the considerable progress already made through the restructuring of the finance function and the implementation of new financial systems across the Council.

It is also important for the financial management process to set some boundaries to ensure that decisions in relation to short term in year issues do not undermine the

Council's longer term priorities and aspirations. Thus the key assumption in relation to the financial management process is

Key Assumption 1

No supplementary estimates will be approved which commit costs in future years.

Conclusion

The success of the processes, outlined above, relies upon managers taking hold of the opportunities presented by the active management of their budgets. At the same time they need to be realistic about what they can achieve in terms of their business plans with the money available.

At the heart of these processes is the continuation of a shift in the Council's overall financial management approach from a focus on resource inputs to policy outcomes. Given the limitations on resources this will continue to present difficult choices for the Council.

REVENUE BUDGET FORECAST

About this section

This section sets out the forecast levels of revenue spending and resources for the three-year planning cycle.

There is also an analysis of the risks involved in the major assumptions, which are contained in the forecasts.

This is important because it gives an indication of the amount of spending the Council will need to finance over the three-year period and the achievability of financing expenditure on that scale.

Revenue Expenditure

Any forecast of expenditure over a number of years is of necessity based on a range of assumptions which are open to challenge, and the further into the future that it is attempted to forecast the more open to challenge such assumptions become. The box below sets out the major assumptions made about year on year changes in expenditure, which are reflected in the table below. While as indicated these are open to challenge they are based either upon known changes, consensus forecasts or appropriate advice from the Council's retained advisers.

	2009/10 £000	2010/11 £000	2011/12 £000
Expenditure (less direct grants)	*14,338*	*14,601*	*14,872*
Income	*(2,834)*	*(2,891)*	*(2,949)*
Initial Budget Requirement	**11,504**	**11,710**	**11,923**
Inflation			
Pay	142	144	147
Prices	146	235	185
Income	-34	-37	-40
Revenue Effects of Capital Programme	15	15	15
Technical and Volume Changes	200	200	330
Savings Target to balance resources net of growth	-263	-344	-419
Final Budget Requirement	**11,710**	**11,923**	**12,142**
% Change in Spending	*1.8%*	*1.8%*	*1.8%*

- **Pay –** Pay Awards going forward will be around 2.5%

- **Pension Contributions –** Employers contribution rate rises to 18% of pay in steps over the period, as a result of the triennial (three yearly) valuation. Provision is made within the Stock Transfer agreement for additional one off contributions to mitigate the effect of this.

- **Investment Returns and Capital Financing –** Estimates based on current cash flows (set out in the forecast at Appendix 4), and mid-range market forecasts of interest rates adjusted for historic performance relative to market benchmarks. Interest on borrowing assumes that any new borrowing is taken from the Public Works Loans Board on a 25 year term with repayment of equal instalments of principal.

- **Revenue Effects of Capital Schemes –** For simplicity these are evident in the first full year after completion.

- **Contract Price Changes –** At this point this largely relates to the Leisure Trust, Revenues & Benefits and ICT. Changes will reflect the agreed contract price mechanism and will be adjusted for any performance elements to reflect current performance.

- **Commitments to adoption of additional open space, streets etc. –** These will be included in the forecast based on known metrics, e.g. the cost of mowing a hectare of grass, multiplied by the number of additional hectares adopted. Interest on commuted sums forms part of the interest and financing budget off-setting gross cost

- **Concessionary Fares –** Additional costs of the April 2008 changes will be matched with resources made available through a new specific Government grant.

- **Insurance –** Latest premia adjusted for market assessment by the Council's advisers.

- **Bad Debt Provisions –** Based upon current collection performance

- **Income –** *Government Grants* - based upon relevant circulars
  - *Fees and Charges* - increased by a composite index, comprising 2/3 pay, 1/3 prices, giving increases of between 2.5% and 3%. All budgets are also adjusted to reflect current activity levels (e.g. to take account of a reduction in the number of planning applications).

The forecast does not make provision for new commitments. The cost of single status, based on proposals put to staff has been modelled and quantified. Resources, being a mix of earmarked reserves and other financial measures have been identified. However, financial risk still exists in the form of potential appeals, back pay claims and market supplements. Other possible areas of new commitment include:

- Issues arising from consultation with stakeholders on spending priorities. Based upon experience in other authorities these are likely to focus on street scene and community safety issues.

- Impact's from the new Rossendale Sustainability Community Strategy, key areas, other than those covered above include community engagement, and economic development, although these are not exclusive

- Impacts from major Council strategies at a more detailed level. These include the Human Resources Strategy, the ICT Strategy and other specific statutory plans such as those for Food Safety, and Health and Safety Inspection, together with the need to drive continuous improvement across the whole range of services. *(nb – further details on links to other strategies can be found in the 'Policy Context' above)*

- The continuing development of the Capacity Building Model of Local Governance.

In particular the way in which the various agenda's are moving and the need to "join up" key elements of service provision to address issues has caused the Council to rethink some of its priorities. For example previously Leisure was not an area for new investment. However, certain elements of Leisure provision can make a very significant positive impact on the Health and Wellbeing and Community Safety agendas, which are central to the achievement of the Council's wider objectives.

Conversely it may be that something forming part of a priority such as open spaces which are part of Street Scene and Liveability might reflect some areas of over provision which if eliminated could generate investment in areas of under provision.

All these issues place pressure on the Council to grow expenditure, as do nationally driven changes such as the changes to the concessionary fares scheme. However, as indicated above in terms of its budget requirement Rossendale is already a relatively high spending council. Therefore if the impact of these pressures on the Council Tax is to be minimised the Council needs to set itself some rules around the rate of expenditure growth, and the rate at which grows its other directly controllable income streams such as fees and charges. There are various ways in which such a rule might be expressed, linking expenditure growth to both commitments and changes in central government support etc. However, it is probably better in the first instance to create a simple limit based upon the rate of increase in the Borough's share of the Council Tax.

Since the introduction of the Council Tax in 1993/94 the Rossendale element has risen by on average 4.5% each year (although expenditure has only grown by on average 2.6%, the difference being the so called "gearing effect"). The Treasury's inflation target for general inflation is 2.5% (as measured by the retail price index, but 2% when measured by the Consumer Prices Index), although inflation in local government for various technical reasons concerned with the make up of the various cost drivers which affect councils is acknowledged to run somewhat higher than this. Clearly it would be desirable for the Council to reduce expenditure growth below its long term trend in order to bring the trend rate of increase in Council Tax down. There is a balance to be struck here between what is desirable in terms of reducing the impact of the Council's relatively small element of the Council Tax bill and the achievement of a deliverable budget. The planning assumptions in relation to expenditure growth are set out below:

Key Assumption 2
Expenditure growth will be contained at a level such that the increase in Council Tax required to fund the budget requirement with no use of reserves is limited to 3%.

Revenue Resources

There are three sources of finance to support the budget requirement illustrated in the forecast above:

- General Government Grants
- The Council Tax
- The Council's Reserves

General Government Grants
As far as the Borough Council is concerned these are the combination of the Revenue Support Grant and National Non-Domestic Rate. These are referred to within the local government finance system as Total Formula Grant. There are three factors influencing the level of grant which the Council receives:

a) The national control totals for funding the services which the Council provides. As a shire district this is predominantly through the Environmental, Protective and Cultural Services (EPCS) Block. Funding for this service block traditionally lags significantly behind that for the major service blocks such as Education and Social Services. This is particularly evident in the year settlement following the 2007 Comprehensive Spending Review (CSR07).

b) The Council's relative spending need as assessed through the grant system. Changes in the first medium term settlement do reflect some increased recognition for the level of spending need in Rossendale.

c) Floors and Ceilings within the grant system which are designed to allow Councils which lose resources as a result of formula change to receive a guaranteed minimum increase in grant. Rossendale benefits from this arrangement in the latest three year settlement.

There are other much smaller general sources of government grant which will become available over the planning period:

- Local Authority Business Growth Incentives
- PSA 1 Performance Reward Grant
- Area Based Grant
- Concessionary Fares Grant

The Business Growth Incentive Scheme is a means of allowing local authorities to retain locally a part of the proceeds of the increase in non-domestic rateable values in their area which is a reflection of their economic development efforts. It is extremely difficult to come up with any sort of accurate forecast of the likely proceeds from the scheme. Given the potential instability in the level of income from this source it would not be prudent to rely on it to finance the mainstream budget. A more prudent course would be to set the funds aside to fund future economic regeneration projects thus investing the funds in creating a virtuous development circle. The current estimates are that the Council will receive an initial payment in February 2007 followed by a further payment during 2007/08. These funds have been taken into account in setting the budget for delivering the Council's regeneration priority for 2007/08 and beyond. This scheme will continue over the CSR07 period, but at a much lower level resources available. As a result no further receipts from this source are included in the forecast.

The Public Service Agreement Reward Grant is a one off payment the size of which, depends upon the degree to which the stretch targets within the Lancashire wide PSA have been achieved. The estimated level of grant is £150k split between revenue and capital and payable in two instalments in 2006/07 and 2007/08. While the sum is now known this is a one off source of finance and it would be unwise to rely on it within the overall financial plan. The more prudent approach will be to earmark the resources for investment which will pay back in terms of achievement against the targets within either PSA 2 or the Local Area Agreement which is likely to absorb it. To this end this strategy earmarks these funds within the Change Management Reserve.

Area Based Grant is a non earmarked grant. However, the Council receives such grant as a result of specific issues, such as a relatively low score on certain community cohesion indicators. For this reason it is important to allocate these resources in such a way as to effectively and efficiently address these issues.

Concessionary Fares grant is a new grant received by Travel Concession Authorities (TCAs) to fund the anticipated increased cost of the new national scheme to commence April 08. In the original consultation regarding the grant to be made available a range of options were proposed. The final grant allocated took the medium ground. There remains therefore uncertainty as to what the final cost will be to the Council and its Lancashire partners. In order to mitigate risk the Lancashire wide TCAs are seeking to agree a pooling arrangement whereby resources are combined to mitigate individual risk to financial exposure.

Given this the key assumptions about central government grants are as follows:

Key Assumption 3
Total Formula Grant will increase in line with the three year settlement for the whole forecast period.

Key Assumption 4

Additional grant resources made available for the changes to statutory concessionary fares beyond April 2008 will equate to the required expenditure increase. Any deficit being compensated through use of the budget volatility reserve. Rossendale will pool its resources with other Lancashire TCAs in order to mitigate any negative financial impact.

Key Assumption 5

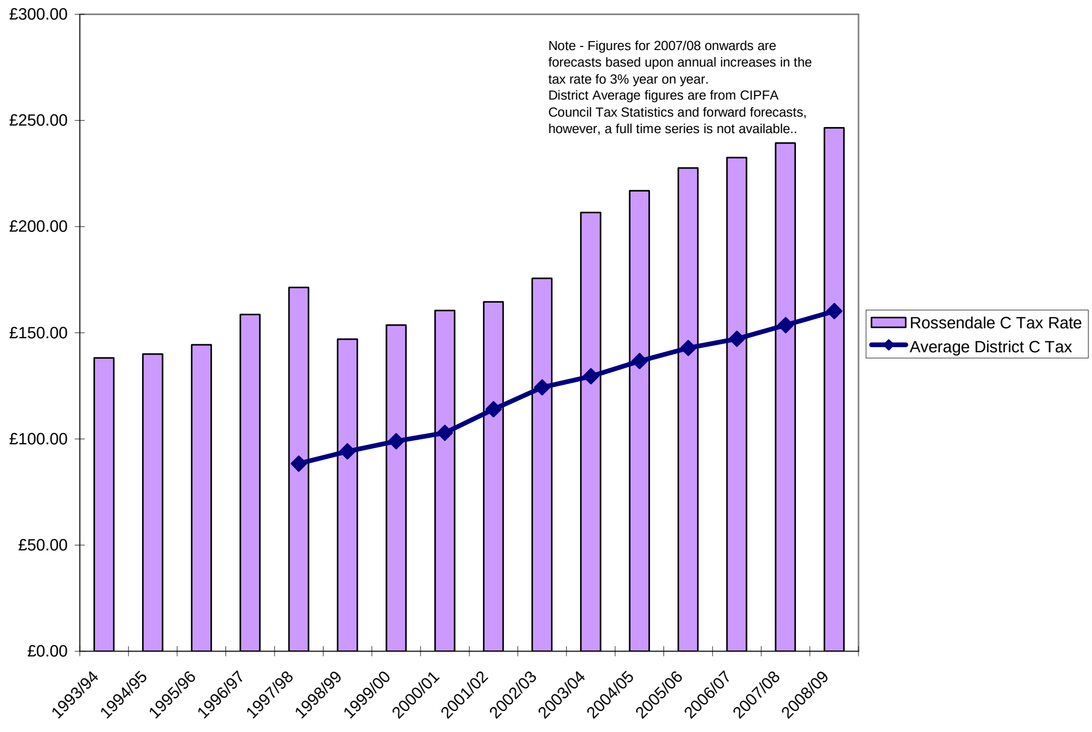
Any proceeds from the Local Authority Business Growth Incentive scheme will be earmarked for future economic regeneration projects and will not affect underlying expenditure.

Key Assumption 6

Any proceeds from the Local Public Service Agreement Reward Grant will be earmarked within the Change Management Reserve to fund improvements related to targets in PSA2, or the Local Area Agreement.

The Council Tax

The Council Tax is the main source of income available to the Council over which there is direct control. However, clearly there is a limit to the degree to which the tax burden can be increased without meeting either public resistance, or attracting capping. The graph below shows the actual levels of Band D Council Tax for the Borough Council element since the tax was introduced together with forecasts over the planning cycle reflecting the expenditure growth assumption in Key Assumption 2 (above)



(Source Budget working papers and CIPFA Finance and General Statistics)

It should be emphasised that the figures for 2008/09 onwards are forecasts for planning purposes only. Final decisions on Council Tax levels will be made each year by elected members in the context of the financial position at the time.

There are two key factors in the level of income generated by the Council Tax.

- The tax base (the number of band D equivalent properties which can be taxed)

- The buoyancy of collection as measured by the Collection Fund Surplus or deficit.

In relation to the tax base the restrictions imposed on development by current planning policies mean that the rate of growth is likely to be below the long term trend rate of 0.77% per year.

In terms of collection buoyancy it is true that the Council's performance on Council Tax collection is improving significantly, and at a fairly rapid rate. However, the generation of surpluses on the Collection Fund in the future has the potential to distort year on year changes in the Council Tax rate. Therefore, in terms of longer term stability in tax rates it is better to plan on the basis that such surpluses have no effect on the underlying level of Council Tax

The key assumptions in relation to Council Tax are therefore as set out in the box below:

Key Assumption 7

That the tax base increases at a rate of 0.57% per annum. This is 0.2% below the longer term trend, reflecting the current restrictions on development in the Valley.

Key Assumption 8

The Collection Fund will run in balance on an ongoing basis, and if any surplus is generated it will not affect the underlying level of taxation

The Council's Reserves

Reserves are the Council's accumulated savings. They serve an important purpose in enabling the Council to manage through financial rough weather, for instance the unbudgeted, and unforeseeable expenditure which might be required to deal with a serious flooding incident. There is no hard and fast rule about what the level of reserves should be. In part it is a function of the level of risk faced and the strength of the financial control environment; in part it is a matter of professional gut feel, however, Appendix 2 attempts to quantify this.

It needs to be borne in mind that there are two forms of reserve:

- General Reserves, which are not held for any specific purpose, but which are available to assist with the management of financial risks and to deal with any emergencies which might arise.

- Earmarked Reserves, which are sums of money set aside for a specific purpose or project.

Good practice which is set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) bulleting LAAP 55 is that the level and adequacy of reserves should be reviewed on a regular basis in the light of both the risks facing the organisation and the organisation's policy objectives. Most Council's including Rossendale will do this twice a year, when the budget is set, and when the outturn is reported, as these are the points in the reporting cycle when resource allocation is possible. This strategy allows the Council to put in place a framework of rules within which to operate its use of reserves.

The purpose of the various earmarked reserves, which the Council currently maintains, or which this strategy recommends is as follows:

Change Management Reserve – To provide resources to support the costs of change within the organisation, such as consultancy support, restructuring costs, or investment in technology to realise savings.

Single Status Reserve - To meet the transitional costs of implementing Single Status including pay protection and implementation costs.

Capita Contract Performance Reserve – To meet the cost of target achievement capped at a maximum £25k per annum

Economic Regeneration Projects - As indicated above to hold Business Growth Incentive Scheme payments for investment in specific regeneration schemes.

Budget Volatility Reserve – To provide for exceptional increases in demand driven budgets (such as: concessionary travel, housing benefits, etc.)

Members have previously approved a policy statement on the use and purpose reserves (Cabinet – June 2007). The policy statement identified:

a) The status of the reserve, whether earmarked or not
b) The purpose for which each reserve is held
c) The mechanism through which funds may be released from the reserve

The table below gives the forecast level of General Fund Reserves over the planning period. This is based upon a range of assumptions about the rate of spending in some areas, in particular in relation to the Council's change agenda. However, given that the intention is that such expenditure should not affect the underlying level of ongoing expenditure then there should be no effect upon the ongoing budgetary position.

General Fund Reserves Analysis and Forecast:

	Notes	Actual Balance at 31st Mar 06	Actual Balance at 31st Mar 07	Actual Balance at 1st Apr 07	Forecast Balance at 31st Mar 08	Forecast Balance at 31st Mar 09	Forecast Balance at 31st Mar 10
General Reserves	Notes	646	686	811	**750**	**750**	**750**
Earmarked Reserves							
CCTV	1	17	-	-	-	-	-
Change Management	2	725	141	666	337	337	337
Legal Liability		100	100	100	-	-	-
Planning		-	-	-	50	50	50
Single Status	2	-	-	400	450	200	-
Budget Volatility Reserve	2	-	100	200	141	21	21
Capita Contract Performance		-	-	-	45	20	-
Economic Regeneration		-	661	661	569	477	385
Total Earmarked		842	1,002	**2,027**	**1,592**	**1,105**	**793**
Total Reserves		1,488	1,688	**2,838**	**2,342**	**1,855**	**1,543**
Transfer from HRA	2	1,099	1,150	-	-	-	

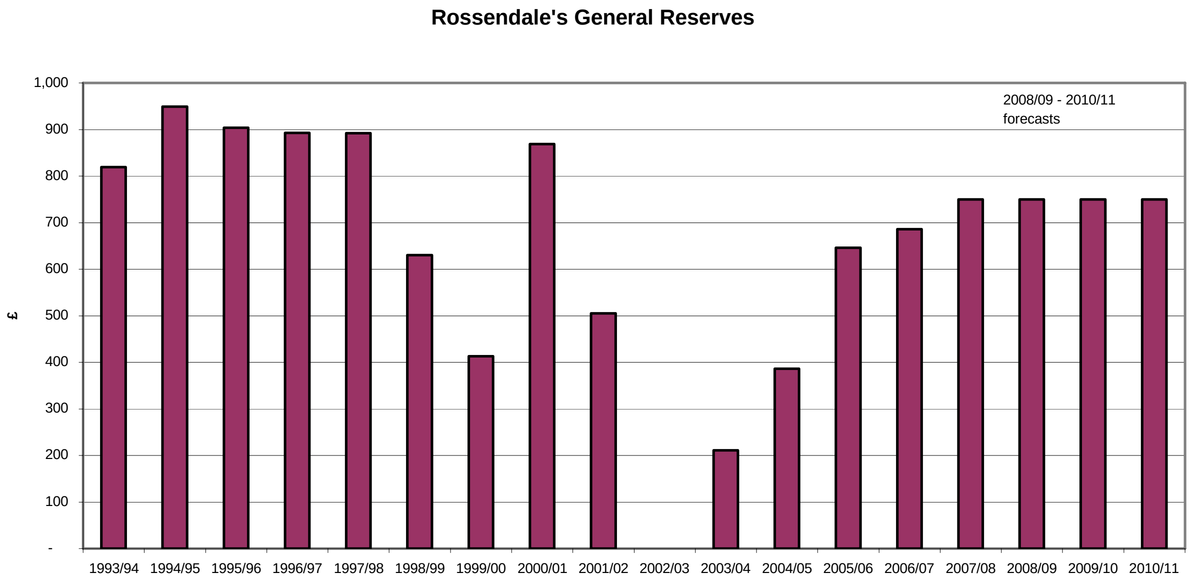
1 - Theses reserves have either now been closed or fully utilised
2 - This figures demonstratethe use of £1.1M HRA balances available for general use as from 1st April 2007.

From the above it is clear that the Council has to the extent possible allocated the reserves available to it to cover off the major strategic risks which it faces, in particular in relation to Single Status. These actions together with the delivery of the Improvement Programme will reduce the Council's financial risk exposure in relation to its General Reserves over time.

The Council's policy is to maintain General Reserves (or balances) at between £0.5m and £0.75m. This is required to deal with unexpected budget variances, legal claims, pay awards and so on. Taking pay awards as a further example a cushion of this sort would allow the Council to absorb a 3 year pay award of 4% in excess of the allowance made in the budget. The likelihood of an excess pay award on this scale is remote. This illustrates the point that a reserve cushion on this scale together with appropriate use of earmarked reserves will allow the Council to absorb a number of unexpected events in any one year. This target for General Reserves is illustrated in the table below.

	Cash Sum £000	As % of 2008/09 Budget Requirement
Minimum Level of General Balances	500	4.3%
Level of Balances Reflected in 2008/09 Budget	750	6.5%
Maximum Level of General Balances	750	6.5%

The historical trend of General fund reserves together with the forecast trend to 2010 are shown in the following chart:



The key assumptions in relation to reserves are therefore as follows:

Key Assumption 9

General Reserves will be maintained at a minimum level of £0.5m, with the potential to rise to a maximum of £0.75m, and will under ***no*** *circumstances be used to support recurrent revenue expenditure or reductions in the level of the Council Tax.*

Key Assumption 10

The use of earmarked reserves will not affect the level of underlying expenditure and will be focussed upon the delivery of the Council's policy priorities and improvement agenda.

Matching Spending and Resources

The final key piece of the budgetary jigsaw is the matching of spending and resources. In essence this is an exercise in prioritising the Council's priorities, in order to achieve a budget which delivers on the areas most important to members in terms of reflecting community aspirations and fits within the resource envelope.

The forecasts set out above can be summarised as follows:

	2009/10 £000	2010/11 £000	2011/12 £000
Forecast Budget Requirement	11,974	12,267	12,560
Headroom for Growth	0	0	0
Requirement for Savings	(263)	(344)	(419)
Forecast Resources	11,711	11,923	12,141

Clearly it will be possible for members to identify savings over and above those which will be required in the above scenario for further investment in service improvement. Indeed, it will be important to do so in order to ensure that overall resources are directed to priorities and that progress along the Council's improvement journey continues.

The scale of savings likely to be required clearly presents the Council with the need to make some difficult choices going forward if it is to continue with both the objective of bringing Council Tax closer to the average and the delivery of ongoing service improvement. Either significant cost reductions or significant new income streams are required in order to create the headroom required to allow choices about investment to be made. In order to achieve this councillors need to be given a range of genuine policy choices early enough in the planning process to allow them to debate options and to allow time for implementation. Given the numbers identified above it is suggested that a council wide target of £0.85m of cost reductions over 2009/10 and 2010/11 be agreed, with options to achieve this being identified for consideration by members by during 2008. It is proposed to break the target down between the Street Scene and Liveability service and the remainder of the Council taking into account the relative proportions of the total budget and the scale of provision within budgets which is ring-fenced to external contracts such as that with the Leisure Trust.

This gives a breakdown as shown below:

	2009/10	2010/11	Total
Street Scene and Liveability Service	250	350	600
Other Services	125	125	250
Total	375	475	850

While it would clearly be desirable to achieve all these savings through increase efficiency it has to be accepted that this is unlikely to be achievable on this scale and that service reductions in lower priority areas may well be necessary to achieve these targets.

It also needs to be borne in mind that that reducing costs is not the only way of making savings. Following a recent Audit Commission report it is important that the Council fundamentally reviews its policies for the raising of income through charges for services. A detailed review of this area is included within the Financial Services business plan.

In terms of the delivery of savings (and the allocation of growth) the following key assumptions need to form the basis of the process which the Council will go through:

Key Assumption 11

Savings or additional income options of up to £0.85m for the years 2009/10 and beyond will be identified for consideration during 2008. Savings will be included in the Council's budget which meet the following prioritised criteria:

- *They meet the Gershon criteria as a cashable efficiency, including having either no, or a beneficial effect upon performance.*
- *They represent a new or increased controllable income stream.*
- *They represent a reduction in the volume or quality of a low priority service.*

All savings proposals will be subject to a risk assessment in terms of deliverability.

Key Assumption 12

Growth will be allocated in line with the priorities determined by the Council, and proposals will be considered in the light of the following:

- *Additional statutory requirements.*
- *Delivery of improvements in performance, particularly against the key 8x8 indicators.*
- *Generation of future revenue savings (invest to save).*

Risk Assessment

The detailed figures included above are forecasts and not a detailed budget. Thus there is a risk that they will not represent an accurate forecast of reality. However, the assumptions which have been used are prudent and this should result in forecasts erring on the pessimistic rather than the optimistic which is the preferable situation.

There are within any budget key areas of risk. The more obvious ones for the Council include the following:

- Pay Awards – Negotiations on the pay awards for staff from 2008/09 onwards will not be concluded at the time the budget is set. The Chancellor of the Exchequer has indicated his expectation that public sector pay awards should be around 2%. Provision in the region of 2.5% has been made. A return to annual settlements clearly represents a risk here and the position will be kept under close review. As 1% on the pay bill equates to c£60k the Council's general reserves are sufficient to deal with any in year issues.

- Pension Costs – This is a particularly high risk area as the Council moves from provider to commissioner of services. Allowance has been made in the resource flowing from the Stock Transfer agreement to mitigate the increased deficit flowing from the transfer of staff to Green Vale Homes (£2.8m over 10 years). However, it is not clear how the Government's proposals to change the scheme will impact on employers' contribution rates which are included in the forecast at a rate of 18%.

- Income - The Council has transferred the biggest risk in this area through the transfer of services to Rossendale Leisure Trust. There are, though, other smaller income streams which are affected by market conditions. These are reflected in the forecast where they are significant enough to have been highlighted in budget monitoring.

There are other major areas where the Council is exposed to risk such as Single Status. To the maximum extent possible these risks have been covered off through the strategy recommended for the use of earmarked reserves and other financial measures proposed.

Overall the forecast recognises as many risks as possible and has sought to ensure that they are mitigated to the maximum extent possible within the other constraints set out in this strategy.

A further and more detailed analysis of risk together with a report under s.25 of the Local Government Act 2000 can be seen at Appendix 2. This indicates how the Council has quantified the level of risk and therefore identified a sufficient level of reserves to mitigate this risk.

CAPITAL PROGRAMME FORECAST

About this section

This section sets out the forecast levels of capital spending and resources for the three-year planning cycle. More detail in relation to the prioritisation and management of the Capital Programme is set out in the separate Capital Strategy document, which is available on the Council's website.

There is also an analysis of the risks involved in the major assumptions, which are contained in the forecasts.

This is important because it gives an indication of the amount of spending the Council will need to finance over the three-year period and the achievability of financing expenditure on that scale.

Capital Spending

The table below summarises the current three year spending plan, assuming a continuation of current policies.

	2008/09 Total £000	2009/10 Total £000	2010/11 Total £000
Customer Services & e-Government	98	100	100
SS & NS	1,149	619	684
Communities & Partnership	15	135	15
Regeneration	1,065	1,853	915
Corporate	1,370	555	555
Housing	4,103	3,715	3,586
Total	**7,800**	**6,977**	**5,855**

The approved capital programme begins to address a number of historical maintenance issues involving amongst other things Council buildings, car parks, playgrounds, cemeteries, vehicle and IT replacement etc. In addition, through the Councils partnership with Green Vale Homes, the Council has begun to address the relative priority attached to the core private sector housing programme, given the changing nature of the housing market within the Borough by committing resources towards the identified need around affordable housing and the problem of empty properties.

Given the above capital programme and forecast capital receipts, the programme over commits resources by £0.3 m at 31st Mar 2011. This is regarded as the maximum possible level of over programming and can be managed through slippage and the fact that capital receipt estimates used are deemed prudent.

There however remain a number of other issues that we will need to be addressed through the internally funded capital programme in the coming years, in particular:

- The aspiration for a single site Civic Centre, although some capital receipts have been earmarked for this significant further resources do need to be identified.

- The identified need to improve leisure facilities across the Borough, although some elements of this can be financed through a route similar to a Private Finance Initiative scheme and the commitments made to the maintenance backlog already included in the programme (in total £1.2M over 5 years)

- The need to put certain forms of equipment renewal on a properly programmed footing, whether the source of funding is ultimately operating lease or more traditional forms of capital finance.

- The need to invest in technological solutions in order to deliver improved efficiency across the organisation, as well as providing the basis for improved service to customers.

- The need to actively address certain types of risk so as to benefit the revenue budget. This might include the resurfacing of play areas and car parks, the stabilisation of gravestones and the resurfacing of paths etc in parks in order to reduce the likelihood of trips, slips and falls which generate insurance claims.

In addition to these internally focussed issues the Council will continue to want to secure investment in regeneration and economic development type projects across the Borough, although it is likely that these will continue to be largely externally funded. However, some of these projects may require the input of Council assets in order to allow the project to proceed. Members will need to consider the relative merits of receiving capital receipts rather than the potential wider economic and regeneration benefits.

The key assumptions around capital spending going forward are:

Key Assumption 13
Capital spending over the planning period will be realigned to address in order of priority:

- *The Council's corporate priorities, where the investment will generate improvements in the quality of service.*
- *The requirements arising from the Asset Management Plan*
- *Investment to generate ongoing revenue savings (invest to save), and reduce risk exposure.*

Key Assumption 14

An increasing proportion of the internally funded capital programme will be taken up with rolling programmes of repair and renewal of the Council's assets.

Capital Resources

The table below sets out the current forecast for capital resources over the planning period.

	Total £000	2008/09 Total £000	2009/10 Total £000	2010/11 Total £000
Resources				
Grants / Third Party Support				
ELEVATE	6,573	2,191	2,191	2,191
DFGs	693	231	231	231
Capital Grants	1,650	650	500	500
Brownfields Recycling Programme	3,743	1035	1823	885
Equity Release	900	300	300	300
	13,559	4,407	5,045	4,107
RBC Receipts				
RTB - Contractual	2,700	900	900	900
RTB - Surplus	1,057	538	409	110
VAT Shelter	1,710	560	570	580
General surplus asset disposals	1,300	1100	100	100
	20,326	**7,505**	**7,024**	**5,797**

The above table reflects changed means by which the Government will support District Council capital expenditure from 2008/09 onwards. It is assumed that support continues at the same level through the planning period.

There are a number of key assumptions built into this forecast:

Key Assumption 15

Capital receipts through retained right to buy following stock transfer will continue at the current level until 2010/11

Key Assumption 16

No supported borrowing is assumed given the change in the way in which support for District Council capital expenditure is financed.

Key Assumption 17

Forward projections of external funding reflect current knowledge of allocations.

In addition to the funding outlined above it is possible for the Council to undertake so called Prudential Borrowing if it is affordable. Given the overall revenue budget forecast it seems unlikely that it will be possible to fund such borrowing unless resources are diverted from elsewhere. Thus no such borrowing is included in the forecast and the justification for such borrowing will need to be considered on a case by case basis. Thus the key assumption around this is:

Key Assumption 18

Prudential borrowing will only be undertaken where a business case, which has been subjected to an appropriate due diligence process identifies that it can be afforded either through the generation of revenue savings or the creation of new income streams.

At present the prudent assumptions have been made around the sale of General Fund assets, other than those affected by the Accommodation Strategy, as these will be significantly restrained by current planning policy, though this is expected to relax in the medium term. As part of the Asset Management Plan work has been completed to identify assets which do not contribute to achievement of the corporate priorities. A disposal programme is currently under way with a view to maximising capital receipts over the medium term.

Matching Capital Expenditure and Resources

Based on:

- the forecasts above
- capital receipts previously used to repay internal borrowings,
- the forecast for the 2007/08 capital out turn
- the previously approved "accommodation strategy"

The overall position in terms of available capital resources is as set out below:

	£000
Total Forecast Resources	20,326
Less: Forecast Spending	20,632
Resources deficit (2008/09 – 2010/11)	**(306)**
Capital Receipts set aside in 2006/07	2,326
Capital receipts deficit forecast for 2007/08	(414)
Less: Resources Set Aside For Civic Building ("Accommodation Strategy")	1,576
Resources Available for Other Investment	**30**

As previously stated the Capital programme is at its maximum, subject to additional capital receipts being generated. The Council needs to consider how it might utilise the minor available resources as part of the budget process taking into account the balance between the benefits of capital spending and the impact of some financing sources upon the revenue budget.

Risk Assessment

As with the revenue budget all the above are forecasts rather than detailed budgets, and there is a need to complete the detailed assessment of the state of the Council's asset base before clear decisions can be made in some areas. However, again the assumptions made are prudent, there is some margin to manage the risks as currently foreseen in terms of potential to overspend and reductions in internal resources, in particular capital receipts.

TREASURY MANAGEMENT STRATEGY

About this section

This section sets out the Council's strategy for managing its cash resources and what are called prudential indicators over the planning period.

This includes an analysis of the risk the Council is prepared to expose itself to in its dealings in the money markets.

This is important because it is a statutory requirement that the Council agree borrowing and investment strategy and the prudential indicators so that Councillors are fully aware of the risks to which the Council is exposed.

INTRODUCTION

The Local Government Act 2003 and supporting regulations requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act) (included as paragraph 9); this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The suggested strategy for 2008/09 in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor. The strategy covers:

- treasury limits in force which will limit the treasury risk and activities of the Council;
- Prudential Indicators;
- the current treasury position;
- the borrowing requirement;
- prospects for interest rates;
- the borrowing strategy;
- debt rescheduling;
- the investment strategy;
- any extraordinary treasury issues (such as those that arose from the 2006 LSVT).

It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from: -

1. increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
2. any increases in running costs from new capital projects

are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

Key Assumption 19
It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

1. *increases in interest charges caused by increased borrowing to finance additional capital expenditure, and*
2. *any increases in running costs from new capital projects*

are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

2. TREASURY LIMITS FOR 2008/09 TO 2010/11

It is a statutory duty under S.3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the “Affordable Borrowing Limit”. In England and Wales the Authorised Limit represents the legislative limit specified in section 3 of the Local Government Act 2003.

The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is ‘acceptable’.

Whilst termed an “Affordable Borrowing Limit”, the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

PRUDENTIAL INDICATORS FOR 2007/08 – 2009/10

The prudential indicators set out in the table below are relevant for the purposes of setting an integrated treasury management strategy.

The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. This was adopted by the full Council on 16th March 2005.

PRUDENTIAL INDICATOR	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**
EXTRACT FROM BUDGET AND RENT SETTING REPORT	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	actual	**probable outturn**	**estimate**	**estimate**	**estimate**
Capital Expenditure					
Non - HRA	£5,749	£6,352	£6,730	£5,154	£4,970
TOTAL	£5,749	£6,352	£6,730	£5,154	£4,970
Ratio of financing costs to net revenue stream					
Non - HRA	1%	1%	1%	1%	1%
Net borrowing requirement					
brought forward 1 April	£0	£0	£0	£0	£0
carried forward 31 March	£0	£0	£0	£0	£0
in year borrowing requirement	£0	£0	£0	£0	£0
Capital Financing Requirement as at 31 March					
Non – HRA	£541	£1,072	£910	£663	£662
TOTAL	£541	£1,072	£910	£663	£662
Annual change in Cap. Financing Requirement					
Non – HRA	-£2326	£531	-£162	-£247	-£1
TOTAL	-£2,326	£531	-£162	-£247	-£1
Incremental impact of capital investment decisions	**£ p**	**£ p**	**£ p**	**£ p**	**£ p**
Increase in council tax (band D) per annum	£0.0	£0.0	£ 0.0	£ 0.0	£0.0

PRUDENTIAL INDICATOR	**2006/07**	**2007/087**	**2008/09**	**2009/10**	**2010/11**
TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	actual	**probable outturn**	**estimate**	**estimate**	**estimate**
Authorised Limit for external debt -					
borrowing	£4,000	£4,000	£4,000	£4,000	£4,000
other long term liabilities	£0	£0	£0	£0	£0
TOTAL	£4,000	£4,000	£4,000	£4,000	£4,000
Operational Boundary for external debt -					
borrowing	£2,500	£2,500	£2,500	£2,500	£2,500
other long term liabilities	£0	£0	£0	£0	£0
TOTAL	£2,500	£2,500	£2,500	£2,500	£2,500
Upper limit for fixed interest rate exposure expressed as either:- Net principal re fixed rate borrowing / investments	100%	100%	100 %	100%	100%
Upper limit for variable rate exposure expressed as either:- Net principal re variable rate borrowing / investments	30%	30%	30%	30%	30%
Upper limit for total principal sums invested for over 364 days (per maturity date)	£500	£500	£500	£500	£500

Maturity structure of fixed rate borrowing during 2008/09	upper limit	lower limit
under 12 months	20%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	25%

CURRENT PORTFOLIO POSITION

The Council's treasury portfolio position at 31st January 2008 comprised:

	Principal			Ave. rate
		£m		%
Fixed rate funding	PWLB	0		
	Market	0	0	0
Variable rate funding	PWLB	0		
	Market	0	0	0
Other long term liabilities			0	
TOTAL DEBT			**0**	0
TOTAL INVESTMENTS			**7.7**	**6.1%**

BORROWING REQUIREMENT

	2006/07	2007/08	2008/09	2009/10	2010/11
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
	actual	**probable**	**estimate**	**estimate**	**estimate**
New borrowing	0	0	0	0	0
Alternative financing arrangements	0	0	0	0	0
Replacement borrowing	0	0	0	0	0
TOTAL	0	0	0	0	0

6. PROSPECTS FOR INTEREST RATES

The Council has appointed Sector Treasury Services as treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates. Appendix A draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Sector central view.

Sector interest rate forecast – 24 December 2007

	Q/E4 2007	Q/E1 2008	Q/E2 2008	Q/E3 2008	Q/E4 2008	Q/E1 2009	Q/E2 2009	Q/E3 2009	Q/E4 2009	Q/E1 2010	Q/E2 2010	Q/E3 2010	Q/E4 2010	Q/E1 2011
Bank Rate	5.50%	5.25%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
5yr PWLB rate	4.80%	4.70%	4.65%	4.55%	4.55%	4.60%	4.70%	4.75%	4.80%	4.80%	4.80%	4.85%	4.85%	4.85%
10yr PWLB rate	4.80%	4.70%	4.60%	4.55%	4.55%	4.55%	4.55%	4.60%	4.70%	4.75%	4.75%	4.80%	4.80%	4.80%
25yr PWLB rate	4.65%	4.60%	4.55%	4.55%	4.50%	4.55%	4.55%	4.60%	4.65%	4.70%	4.70%	4.70%	4.70%	4.75%
50yr PWLB rate	4.55%	4.50%	4.45%	4.45%	4.45%	4.45%	4.45%	4.50%	4.50%	4.55%	4.55%	4.55%	4.55%	4.60%

Sector's current interest rate view is that Bank Rate: -

- **started on a downward trend from 5.75% to 5.50% in December 2007**
- **to be followed by further cuts in Q1 2008 to 5.25% and to 5.00% in Q2 2008**
- **then unchanged for the following two years**
- **there is downside risk to this forecast if inflation concerns subside and so open the way for the MPC to be able to make further cuts in Bank Rate**

ECONOMIC BACKGROUND

International

- The US, UK and EU economies have all been on the upswing of the economic cycle during 2005 and 2006 and so interest rates were successively raised in order to cool their economies and to counter the build up of inflationary pressures.
- The US is ahead of both the UK and EU in the business cycle and started on the downswing of the economic cycle during 2007. The Fed. rate peaked at 5.25% and was first cut in September by 0.5% to 4.75%. This was a response to the rapidly deteriorating prospects for the economy in the face of the downturn in the housing market, the sub prime mortgage crisis and the ensuing liquidity crisis which started in August 2007 and has subsequently resulted in banks making some

major write offs of losses on debt instruments containing sub prime mortgages. Banks have also tightened their lending criteria which has hit hard those consumers with poor credit standing.

- The Fed has cut its rate again, to 4.5% in October 2007 and to 4.25% in December and is expected to cut by another 0.25% to 0.75% by April 2008 to try to stimulate the economy and to ameliorate the extent of the downturn. However, the speed and extent of these cuts will be inhibited by inflationary pressures arising from oil prices, the falling dollar increasing the costs of imports, etc. The US could well be heading into stagflation in 2008 – a combination of inflation and a static economy (but the economy could even tip into recession if the housing downturn becomes severe enough).
- The major feature of the US economy is a steepening downturn in the housing market which is being undermined by an excess stock of unsold houses stoked by defaulting sub prime borrowers pushed into forced sales. Falling house prices will also undermine household wealth and so lead to an increase in savings (which fell while house prices were rising healthily) and so conversely will lead to a fall in consumer expenditure. Petrol prices have trebled since 2003 and, with similar increases in the price of home heating oil, this will also depress consumer spending with knock on effects on house building, employment etc.
- The downturn in economic growth in the US in 2008 will depress world growth, (especially in the western economies), which will also suffer directly under the impact of high oil prices. However strong growth in China and India will partially counteract some of this negative pressure.
- EU growth has been strong during 2006 and 2007 but will be caught by the general downturn in world growth in 2008.

UK

- GDP: growth has been strong during 2007 and hit 3.3% year on year in Q3. Growth is expected to cool from 3.0% in 2007 as a whole to 2.0% in 2008.
- Higher than expected immigration from Eastern Europe has underpinned strong growth and dampened wage inflation.
- House prices started on the downswing in Q3 2007 and this is expected to continue into 2008.
- The combination of increases in Bank Rate and hence mortgage rates, short term mortgage fixes expiring and being renewed at higher rates, food prices rising at their fastest rate since 1993 and increases in petrol prices, have all put consumer spending power under major pressure.
- Banks have also tightened their lending criteria since the sub prime crisis started and that will also dampen consumer expenditure via credit cards and on buying houses through obtaining mortgages.
- Government expenditure will be held under a tight reign for the next few years, undermining one of the main props of strong growth during this decade.
- The MPC is very concerned at the build up of inflationary pressures especially the rise in the oil price to $90 – 100 per barrel (was $30 in 2003) and the consequent likely knock on effects on general prices. The prices of UK manufactured goods have risen at the fastest rate in 16

years in November 2007 – 4.5%. Food prices have also risen at their fastest rate for fourteen years (6.6% annual increase) driven by strong demand from China and India. Consequently, the MPC is going to be much more cautious about cutting rates compared to the Fed. in the face of these very visible inflationary pressures. In addition, UK growth was still exceptionally strong in Q3, as has also been the growth in the money supply. The downward trend in Bank Rate is now expected to be faster than at first thought after the initial cut in December 2007 to 5.50% in view of the MPC minutes which showed a unanimous MPC vote for a cut and the consideration given to a half per cent cut. This demonstrated how concerned the MPC is at the potential impact of the credit crunch on the economies of the western world. However, the MPC's room for cutting rates is currently limited by concerns over inflationary pressures. However, if those pressures subside, then there is further downward risk to the Sector forecast which currently only allows for 0.25% cuts in Q1 and Q2 2008 before Bank Rate stabilises at 5.0% for the next two years..

BORROWING STRATEGY

Key Assumption 20
Based on Sector's forecast the assumptions about long term borrowing rates are as follows: -

- *The 50 year PWLB rate is expected to fall marginally from 4.50% in Q1 2008 to 4.45% in Q2 2008 before rising back again to 4.50% in Q3 2009 and to 4.55% in Q1 2010 and to 4.6% in Q1 2011.*
- *The 25 year PWLB rate is expected to fall progressively from 4.65% to reach 4.50% in Q4 2008 and to then be on the rise from Q1 2009 to reach 4.70% in Q1 2010 and 4.75% in Q1 2011.*
- *The 10year PWLB rate is expected to fall from 4.70% in Q1 2008 to 4.55% in Q3 2008 and to then gradually rise from Q3 2009 to reach 4.80% in Q3 2010.*
- *The 5 year PWLB rate is expected to fall from 4.70% in Q1 2008 to reach 4.55% in Q3 2008 and to then gradually rise starting in Q1 2009 to reach 4.85% in Q3 2010.*

This forecast indicates, therefore, that the borrowing strategy for 2008/09 should be set to take 25 – 30 year borrowing towards the end of the financial year but in as much as little variation is expected in average quarterly rates, this is likely to mean that attractive rates could be available at any time in the year when there is a dip down in rates. Variable rate borrowing and borrowing in the five year area are expected to be more expensive than long term borrowing and will therefore be unattractive throughout the financial year compared to taking long term borrowing

While the Council currently holds no long term external borrowing it may be that there are opportunities for the Council to maximise economic returns to the local taxpayer by substituting external borrowing for internal borrowing.

Against this background caution will be adopted with the 2008/09 treasury operations. The Head of Finance will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the Cabinet at the next available opportunity.

Sensitivity of the forecast - The main sensitivities of the forecast are likely to be the two scenarios below. The Council officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- *if it were felt that there was a significant risk of a sharp rise in long and short term rates,* perhaps arising from a greater than expected increase in world economic activity or further increases in inflation, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

- *if it were felt that there was a significant risk of a sharp fall in long and short term rates,* due to e.g. growth rates weakening, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term funding will be considered.

DEBT RESCHEDULING

Given that the Council currently holds no external long term debt the rescheduling of debt is not a major consideration. However, movements in the market will be kept under review to determine whether there are opportunities for reducing the costs of the Council's treasury management operations to the local taxpayer.

ANNUAL INVESTMENT STRATEGY

Investment Policy

The Council will have regard to the ODPM's Guidance on Local Government Investments issued in March 2004 and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes.

Key Assumption 21
The Council's investment priorities are: -

(a) the security of capital and
(b) the liquidity of its investments

Key Assumption 22
The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity

Key Assumption 23
The borrowing of monies purely to invest or on-lend and make a return is unlawful and the Council will not engage in such activity.

Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices.

Specified Investments :

All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable

	*** Minimum 'High' Credit Criteria**	**Use**
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies	* Short-term , Long-term, Individual Support	In-house and fund managers
Certificates of deposits issued by banks and building societies	* Short-term __, Long-term __, Individual __, Support __	In-house buy and hold and fund managers
UK Government Gilts	Long term AAA	In-house buy and hold and Fund Managers
Treasury Bills	--	Fund Managers

The Council uses Fitch ratings to derive counterparty criteria. Where a counter party does not have a Fitch rating, the equivalent Moody's (or other rating agency if applicable) rating will be used. All credit ratings will be monitored monthly. The Council is alerted to changes in Fitch ratings through its use of the Sector creditworthiness service. If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

Investment Strategy

In-house funds*:* The Council's in house managed funds are mainly cash flow derived and will accordingly be made with reference to cash flow requirements and the outlook for short term interest (i.e. rates for investments up to 12 months).

Interest rate outlook: Sector is forecasting that Bank Rate has now started on a downward trend from 5.75% to 5.50% in December 2007. This will continue with further cuts forecast to 5.25% in Q1 2008 and again to 5.00% in Q2 2008. It is then expected to remain unchanged for the next two years.

Councils should, therefore, seek to lock in longer period investments at higher rates before this fall starts for some element of their investment portfolio which represents their core balances. .

End of year investment report
At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

OTHER ISSUES

The Council has published a White Paper setting out proposals for significant investment in improvements to leisure facilities in the Borough. It is intended to finance some of this investment through traditional sources such as capital receipts and grants and possibly prudential borrowing funded either through cost reductions or additional income achieved by the investment. However, the scheme at Haslingden Leisure Centre is to be funded through a partnership arrangement with Alliance Leisure which will operate along the lines of a PFI contract. The delivery of this major strategy may over time impact upon the Council's treasury management operations and the position will be kept under continuous review.

APPENDICES

Appendix 1 Comparative Spending Levels

Appendix 2 Interest Rate Forecasts

Appendix 3 Cash Flow Forecast

Appendix 4 Risk Analysis & Report under s.25 LGA 2000

Appendix 5 Glossary of Terms

Appendix 1

Rossendale's Spending for 2007/08 Compared to All Districts and Nearest Neighbours

	Compared to All Districts				Compared to Nearest Neighbours			
	Average £/head	Rossendale £/head	Difference £/head	%	Average £/head	Rossendale £/head	Difference £/head	%
Corporate & Democratic Core	21.16	32.32	11.16	52.7%	21.52	32.32	10.80	50.2%
Unapportionable Central Overheads	2.20	9.45	7.25	329.5%	2.12	9.45	7.33	346.6%
Local Tax Collection Costs incl CTB Admin	10.74	11.08	0.34	3.2%	12.15	11.08	-1.07	-8.8%
Emergency Planning	0.55	0.36	-0.19	-34.5%	0.35	0.36	0.01	2.2%
Other Central Services to the Public	3.83	6.12	2.29	59.8%	5.39	6.12	0.73	13.5%
Total Central Services	38.48	59.33	20.85	54.2%	41.53	59.33	17.80	42.9%
Culture & Heritage	5.87	1.47	-4.40	-75.0%	6.17	1.47	-4.70	-76.2%
Sport & Recreation	12.39	5.92	-6.47	-52.2%	14.78	5.92	-8.86	-59.9%
Parks & Open Spaces	9.98	15.35	5.37	53.8%	12.09	15.35	3.26	26.9%
Tourism	1.98	0.67	-1.31	-66.2%	1.63	0.67	-0.96	-58.8%
Cemeteries & Crematoria	0.35	4.26	3.91	1117.1%	0.68	4.26	3.58	527.2%
Licensing	0.92	1.20	0.28	30.4%	0.71	1.20	0.49	69.7%
Community Safety	0.92	2.91	1.99	216.3%	4.22	2.91	-1.31	-31.0%
Consumer Protection	0.03	0.00	-0.03	0.0%	0.03	0.00	-0.03	0.0%
Street Cleansing & Litter	9.39	18.12	8.73	93.0%	9.65	18.12	8.47	87.7%
Waste Collection	22.01	20.53	-1.48	-6.7%	21.08	20.53	-0.55	-2.6%
Waste Disposal				0.0%	0.10	0.00	-0.10	0.0%
Planning	14.57	10.35	-4.22	-29.0%	12.14	10.35	-1.79	-14.7%
Economic & Community Development	4.43	7.44	3.01	67.9%	2.77	7.44	4.67	168.5%
Environmental & Public Health Services	12.24	12.21	-0.03	-0.2%	12.21	12.21	0.00	0.0%
Other Services	1.70		-1.70	-100.0%	1.31	0.00	-1.31	-100.0%
Total Cultural, Environmental and Planning Services	96.78	100.43	3.65	3.8%	99.58	100.43	0.85	0.9%
Highways Functions	1.76	0.17	-1.59	0.0%	2.38	0.17	-2.21	-92.9%
Parking	-7.34	1.03	8.37	-114.0%	- 4.58	1.03	5.61	-122.5%
Public Transport incl Concessionary Fares	9.15	12.65	3.50	38.3%	10.81	12.65	1.84	17.1%
Total Highways Roads and Transport Services	3.57	13.85	10.28	288.0%	8.61	13.85	5.24	60.9%
Homelessness	3.52	2.82	-0.70	-19.9%	1.63	2.82	1.19	73.3%
Discretionary Rent Rebates & Rent Allowances	0.26	0.00	-0.26	-100.0%	0.24	0.00	-0.24	-100.0%
Housing Benefit Administration	7.93	10.44	2.51	31.7%	8.27	10.44	2.17	26.3%
Supporting People	0.37	0.00	-0.37	0.0%	0.41	0.00	-0.41	-100.0%
Other Housing	5.29	7.35	2.06	38.9%	4.65	7.35	2.70	58.1%
Total Housing	17.37	20.61	3.24	18.7%	15.19	20.61	5.42	35.7%
Unallocated Contingencies / Other Services	1.21	0.27	-0.94	-77.7%	0.53	0.27	-0.26	-48.8%
Total Expenditure	160.47	194.48	34.01	21.2%	165.41	194.48	29.07	17.6%
Budget Requirement	144.89	171.38	26.49	18.3%	151.07	171.38	20.31	13.4%

Note: The nearest neighbours based upon the CIPFA Statistical model endorsed by the Audit Commission are:

Ashfield	Nottinghamshire	Kettering	Northamptonshire
Cannock Chase	Staffordshire	Mansfield	Nottinghamshire
Carlisle	Cumbria	Newark & Sherwood	Nottinghamshire
Chesterfield	Derbyshire	West Lancashire	Lancashire
Chorley	Lancashire	Wyre Forest	Worcestershire
East Staffordshire	Staffordshire		
Erewash	Derbyshire		
Fenland	Cambridgeshire		
High Peak	Derbyshire		
Hyndburn	Lancashire		

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Appendix 2

INTEREST RATE FORECASTS

The data below shows a variety of forecasts published by a number of institutions. The first three are individual forecasts including those of UBS and Capital Economics (an independent forecasting consultancy). The final one represents summarised figures drawn from the population of all major City banks and academic institutions. The forecast within this strategy statement has been drawn from these diverse sources and officers' own views.

1. INDIVIDUAL FORECASTS

Sector interest rate forecast – 24 December 2007

	Q/E4 2007	Q/E1 2008	Q/E2 2008	Q/E3 2008	Q/E4 2008	Q/E1 2009	Q/E2 2009	Q/E3 2009	Q/E4 2009	Q/E1 2010	Q/E2 2010	Q/E3 2010	Q/E4 2010	Q/E1 2011
Bank Rate	5.50%	5.25%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
5yr PWLB rate	4.80%	4.70%	4.65%	4.55%	4.55%	4.60%	4.70%	4.75%	4.80%	4.80%	4.80%	4.85%	4.85%	4.85%
10yr PWLB rate	4.80%	4.70%	4.60%	4.55%	4.55%	4.55%	4.55%	4.60%	4.70%	4.75%	4.75%	4.80%	4.80%	4.80%
25yr PWLB rate	4.65%	4.60%	4.55%	4.55%	4.50%	4.55%	4.55%	4.60%	4.65%	4.70%	4.70%	4.70%	4.70%	4.75%
50yr PWLB rate	4.55%	4.50%	4.45%	4.45%	4.45%	4.45%	4.45%	4.50%	4.50%	4.55%	4.55%	4.55%	4.55%	4.60%

Capital Economics interest rate forecast – 12 December 2007

	Q/E4 2007	Q/E1 2008	Q/E2 2008	Q/E3 2008	Q/E4 2008	Q/E1 2009	Q/E2 2009	Q/E3 2009	Q/E4 2009
Bank rate	5.50%	5.25%	5.00%	4.75%	4.50%	4.25%	4.00%	4.00%	4.00%
5yr PWLB rate	4.65%	4.45%	4.35%	4.05%	3.95%	4.05%	4.25%	4.35%	4.75%
10yr PWLB rate	4.65%	4.45%	4.25%	4.15%	4.15%	4.25%	4.45%	4.65%	4.85%
25yr PWLB rate	4.65%	4.55%	4.45%	4.45%	4.35%	4.45%	4.55%	4.75%	4.95%
50yr PWLB rate	4.55%	4.55%	4.45%	4.35%	4.25%	4.35%	4.55%	4.65%	4.75%

UBS interest rate forecast (for quarter ends) – 12 December 2007

	Q/E4 2007	Q/E1 2008	Q/E2 2008	Q/E3 2008	Q/E4 2008
Bank Rate	5.50%	5.25%	5.00%	4.75%	4.50%
10yr PWLB rate	5.19%	5.23%	5.25%	5.30%	5.35%
25yr PWLB rate	4.70%	4.75%	4.80%	4.85%	4.90%
50yr PWLB rate	4.55%	4.60%	4.65%	4.70%	4.75%

2. SURVEY OF ECONOMIC FORECASTS

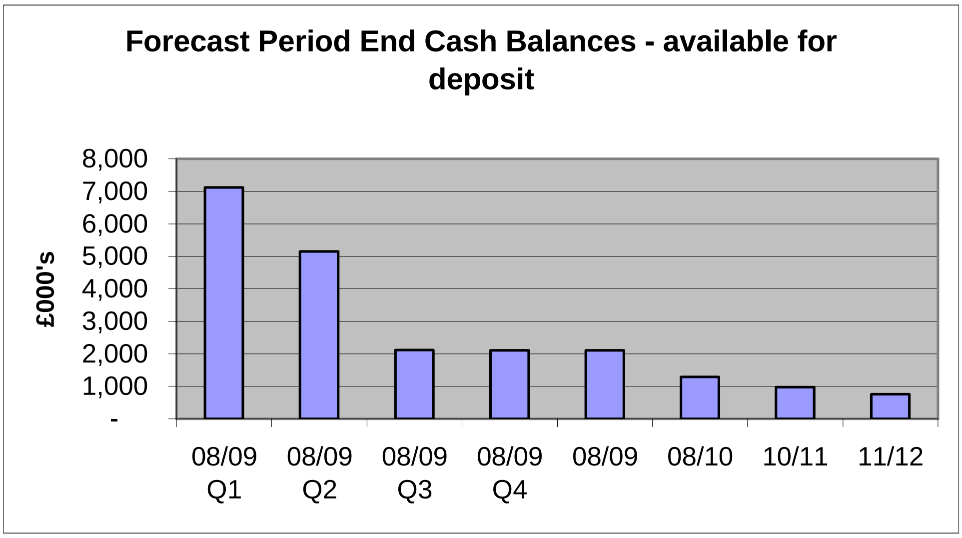
HM Treasury – November 2007 summary of forecasts of 24 City and 13 academic analysts for Q4 2007 and 2008. (2009 – 2011 are based on 21 forecasts)

BANK RATE FORECASTS		quarter ended		annual average Bank Rate		
	actual	Q4 2007	Q4 2008	ave. 2009	ave. 2010	ave. 2011
Median	5.75%	5.80%	5.30%	5.24%	5.22%	5.26%
Highest	5.75%	5.80%	6.30%	6.00%	6.00%	6.00%
Lowest	5.75%	5.30%	4.80%	4.50%	4.06%	4.00%

CASH FLOW FORECAST **Appendix 3**

The following graph estimates the forecast period end cash balances over the next four years assuming the capital surplus is maintained. The period end balances being:

- quarter ends during 2008/09 and
- year ends for the following three years



Appendix 4

Rossendale Borough Council Budget 2008/09 Risk Analysis and Report Under s25 of the Local Government Act 2000

This analysis is produced in order to:

a) Support the conclusions as to the robustness of the budget and adequacy of reserves set out in the Chief Finance Officers report under 25 of the Local Government Act 2000.

b) Inform members of the financial risks facing the Council for consideration as part of their debates around the setting of the budget and approving the Medium Term Financial Strategy.

Financial risks are clearly of various sorts but can broadly be characterised as follows:

- The chance of overspending against budget
- The chance of underspending against budget
- The chance of an unforeseen event with a major financial impact (for example a flood or similar event)

Clearly such risks might have either a positive or negative effect on the Council's overall financial position and it is the purpose of the financial management process to allow the Council to both identify the risks it faces and the steps required to either mitigate them in the case of negative risks or exploit them in the case of positive risks.

Turning to the specific risk areas within the Council's budget for 2008/09 the following specific areas of risks have been identified.

Expenditure/Income Heading	**Impact**	**Likelihood**	**Comments**
Employee Costs			
Pay awards	Medium	Medium	The budget assumes 2.5% for pay awards for 2008/09 while initial claims is for 6% the Treasury guidelines is 2% and any awards will be in the context of what is a very light Local Government finance settlement. Given this there is a risk of service disruption due to strike action. A 1% variance equates to a c.£69k
Job Evaluation	High	Medium/High	The pay and grading structure proposed as a result of Job Evaluation depends for its affordability on the full implementation of a set of measures which provide some compensating savings. Elements of these measures have yet to be agreed and there therefore remains a risk of at least £40k. In addition the Trade Union side have not agreed the proposed pay and grading structure which results in significant risk in this area.
Vacancies	Medium	Certain	Vacancies will inevitably occur generating savings. No savings are assumed with base budget providing some cushion in relation to pay awards. Savings in previous years have been around £100k
Pension Contributions	High	Low	Contribution rates for the three years commencing 1.4.08 can be frozen at current levels. However, this assumes continued good investment performance and some positive benefit from scheme changes. An element of the stock transfer proceeds was earmarked to mitigate pension risks. However, elements of the transfer agreement need to be reengineered in order to facilitate to take into account the views of the District Auditor on the status of schemes payable under the Transfer Agreement. A requirement to provide for 1% additional contributions equates to

Expenditure/Income Heading	Impact	Likelihood	Comments
			£50k
Running Costs			
Energy and Fuel	Medium	High	Prices in the international fuel and energy markets are currently highly volatile. Additional inflationary provision has been made in 2008/09 and in future forecasts. However, energy contracts will need to be re-tendered during the forecast period and it is possible given the recent market movements that tendered prices may be in excess of budgets. This is a particularly volatile area but previous overspends have been contained within the overall budget. A 10% variation which is possible equates to £35k
Repairs and maintenance	Medium	Medium/High	This area of the budget has consistently overspent in the past and is highly demand driven. While the availability of resources in the capital maintenance programme will reduce demand over time the tipping point has yet to be reached. A variance of 10% equates to £23k.
Insurance	Medium	Medium	The Council's insurance contract needs to be relet during this planning period. The pool of providers of local authority insurance is very small and it is likely costs will increase by more than inflation a fact reflected in financial forecasts. Much of the Council's investment programme is aimed at reducing exposure to insurable risks and this is a factor which will be reflected in the procurement process A 5% variance which is within the forecast range equates to £11k
Contract Costs			
ICT	Low/Medium	High	The Council has been going through a process of successfully negotiating down the costs of the ICT contract. This will continue but while further reductions will occur they are likely only to be on a relatively small scale until it is necessary to re-tender
Leisure	High	Medium/High	The two leisure trusts are affected to a significant extent by movements in

Expenditure/Income Heading	Impact	Likelihood	Comments
			energy prices and while to 2008/09 budget injects significant additional resources to the two trusts trading margins and the strength of balance sheets remain fragile. The ability of the Trusts to raise prices is also constrained by market conditions. While there is little direct competitive pressure there is now direct competition to Ski Rossendale which is a major income generator. The opening of the new Haslingden Lifestyle Centre may ease the position in due course. While contract prices are fixed the Council cannot be wholly insulated from the trading position of the Trusts and may face calls for additional resources. A 5% variation due to increased energy costs for instance would equate to £33k on its own. Total risk including the possibility of emergency building works needs to be seen as at least £100k.
Revenues Benefits and Customer Contracts	Low	Low	The price of this contract is linked to RPI and while this index is increasing it is foreseeable. As the contract price is fixed the risk of non-inflationary variations is slight. The contract does contain an incentive mechanism which will generate rewards to the contractor. However, this mechanism is capped and reserves to meet roughly three years payments under this mechanism have already been set aside.
Housing Benefits	Very High	Medium/High	Expenditure in this area at some £16m is the largest single item of expenditure in the Council's budget. While this expenditure is fully funded by grant there is an extremely complex system of rules that determine what is and what is not eligible for grant. Variations are likely in particular in relation to the recovery of overpayments and change to the benefit rules from April 2008, may increase the risk of overpayments being made. Given that a 1% variance on this budget amounts to £160k the changes from April 2008 and the previous history

Expenditure/Income Heading	Impact	Likelihood	Comments
			of variances in this area significant caution needs to be exercised in this area
Concessionary Fares	High	High	Given the changes from April 2008 this has to be regarded as a very high risk budget. Given the elements of uncertainty and factors in the changes to the scheme which would seem to favour the Council the budget has not been increased to reflect the overspend in the current year (£100k). Should an overspend of this nature recur significant resources will be available in the budget volatility reserve. A 1% variance in this area amounts to £10k, however the estimates made by consultants in relation to the April 2006 changes were out by some 30% illustrating how volatile this area of spending is. Based on this financial risk needs to be seen as in the range /- 10%, or £100k. In order to mitigate this risk to the above levels it is proposed that the Council joins forces with the other Lancashire Transport Authorities (ie the District & Unitary Councils) in a pooling arrangement the object of which is to mitigate individual local authority exposure.
Income			
Planning Fees	Medium	Medium/High	This budget is subject to the impact of changes in the wider economy with a slow down in the economy likely to lead to a slow down in applications coming forward, particularly major applications. The budget has not been increased to reflect current levels of activity and while the Government has proposed fee increases the level of these has not been confirmed and they have not been reflected in the budget. In addition these increases will be accompanied by other changes which will reduce the numbers of applications on which fees can be charged. The effect of this charge can

Expenditure/Income Heading	Impact	Likelihood	Comments
			not be quantified at present. This prudent approach should serve to mitigate the apparent risk. A 10% variance which is wholly possible in this area amounts to £30k
Building Control Fees	Medium	Medium	Similar factors impact on this budget as apply to planning fees, although fees are set locally. This service continues to trade effectively and historically has managed to maintain its position. A 10% variance in this area amounts to £18k
Market Rents	Medium	High	Market rents have failed to achieve budget consistently in recent years. This pattern reflects changes in shopping patterns and economic forces which are beyond the Council's control. While the budget has been adjusted to a more realistic level there still remains a risk in the +/ - 10% range equality to £12k
Capital Financing and Interest	High	High	This budget is driven by both the level of interest rates and the level of cash available for investment. The Council utilises the service of Treasury Management Advisers to assist with interest rate forecasts, and cash flow forecast are updated on a regular basis in light of actual patterns of receipts and payments. This remains a highly volatile budget due to the inability to influence interest rates and the difficulties in prudent forecasting cashflows, although assumptions are used. The risk is in the range +/- 15% or £36k

In Summary this gives risks in the revenue budget in the range below

	Worst Case £000	Best Case £000
Pay awards	60	0
Job Evaluation	40	0
Staff Vacancies	0	-100
Pension Contributions	0	0
Energy and Fuel	35	0
Repairs and Maintenance	23	0
Insurance	11	-11
ICT Contract	0	0
Leisure Contracts	100	0
Revenues, Benefits and Customer Contract	0	0
Housing Budget Payments	160	160
Concessionary Fares	100	100
Planning Fees	30	-30
Building Control	18	-18
Market rents	12	0
Capital Financing and Interest	36	-36
Total	602	65

The implication of this range of possible variations is that on a worst case basis the Council needs to maintain reserves of at least £602k to set against the identified risks.

Conclusion and adequacy of Reserves

Having considered the exposure to risk the following shows how this risk relates to the Council's reserves:

	£000
Maximum Financial Risk Exposure	602
Minimum level of General risk	500
	1,102
Less est General Reserve @ 31.3.08	750
est Budget Volatility Reserve @ 31.3.08	143
Notional shortfall in available reserves	209

However, it is unlikely that all these risks will materialise at once, and if the worst case possible variation is adjusted for likelihood set out in the risk assessment then the following shows the requirement to maintain reserves

	£000
Weighted Financial Risk Exposure	416
Minimum Level of General Reserve	500
	916
Less est General Reserve at 31.3.08	750
Est Budget Volatility Reserve at 31.3.08	143
Notional short fall in reserves	23

This notional shortfall equates to 2.7% of forecast reserve and 0.2% of the likely budget requirement for 2008/09 In this context it is not material and it is likely that such a shortfall could be managed within routine variations to the budget.

Therefore, no budget is without some exposure to risk. However, the position in Rossendale is such that risks have been identified and either provided against or the above considered view taken that the scale of them is manageable.

The degree of risk that remains evident in the budget influences the view which should be taken on the level of reserves which the Council need to maintain, which is the second strand to this statutory advice. The Council's financial strategy suggest that Members consider a target range for general reserves of £0.5-£0.75m. General reserves as at 1st April 2007 were £750k and are expected to remain at this level as at 31st March 2008. The above "notional" shortfall demonstrates that general reserves should be maintained at the level of £750k. This level of general reserves, together with other smaller earmarked reserves, will allow a cushion against the sort of risk which have been identified and those unforeseen incident which may from time to time arise. The Medium Term Financial Strategy includes a forecast of all reserves over the medium term.

Therefore in conclusion I am able to give positive assurance to Members as to:

- the adequacy of General and earmarked reserves to address the risks against which they are held and
- the robustness of the budget for 2008/09.

PJ Seddon
Head of Financial Services
February 2008

Appendix 5

Glossary of Terms and Examples

Authorised Limit for External Debt
The Authorised Limit, like all other prudential indicators, has to be set and revised by elected members. It should not be set so high that it would never in any possible circumstances be breached but rather reflect a level of borrowing which while not desired, could be afforded but may not be sustainable

Capital Expenditure
Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset.

Capital Financing Requirement
This important component of an authority's capital strategy is the amount of capital spending that has not been financed by capital receipts, capital grants, and contributions from revenue. It is a measure of the underlying need to borrow for capital purposes

Debt Rescheduling
Similar to re-mortgaging a house, in so far as, loans are repaid before maturity, and replaced with new loans, usually at a more advantageous rate of interest

Liquidity
Access to cash deposits at very short notice

Market Loans
Loans borrowed from financial institutions such as banks and building societies

Maturity
The date at which loans are due for repayment.

Net Borrowing Requirement
The Council's borrowings less cash and short term investments

Public Works Loan Board
A Government agency that provides longer term loans to local authorities

Operational Boundary for External Debt
This indicator is, as its name suggest, the focus of day to day treasury management activity within the authority. It is a means by which the authority manages its external debt to ensure that it remains within the self imposed Authorised limit. However it differs from the Authorised limit in being based on expectations of the maximum external debt of the authority according to probable- not simply possible-events and being consistent with the maximum level of external debt projected by the estimates.

Prudential Borrowing
This is borrowing wholly supported by the Council and would include `invest to save projects'. Market conditions permitting it may well be cheaper to borrow rather than lease vehicles and or plant. .

Ratio of Financing costs to Net Revenue Stream
This is the proportion of interest payments plus debt repaid less interest receipts expressed as a proportion of the revenue stream. In the case of General Fund the revenue stream equates to the budget requirement of £11.2m (funded by Rate Support Grant, Business Rates and Council Tax).

Repurchase Rate (Repo)
This is equivalent to the Bank of England base rate

Supported Borrowing
This is borrowing that is supported by the government through the revenue support grant and housing subsidy grant.

Term Deposit
Investments for a pre-defined period of time at a fixed interest rate

Upper Limit for fixed/variable interest rate exposure
This relates to the limit in loans which can be held in either fixed interest rates or variable interest rates. Whilst fixed interest-rate borrowing can contribute significantly to reducing the uncertainty surrounding future interest rate scenarios, the pursuit of optimum performance may justify, or even demand, retaining a degree of flexibility through the use of variable interest rates

Volatility
Sudden upward or downward movements in interest rates in reaction to economic, market and political events