

# Medium Term Financial Strategy

2006/07 – 2008/09

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## **INTRODUCTION**

This document is Rossendale Borough Council's second medium term financial strategy and covers the period up to 2008/09, which is also the period for which Central Government will issue the first three year financial settlement for local authorities.

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 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 has traditionally been assumed.

This Strategy represents a new beginning for the Council. Through 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 is a Council on an improvement journey, which will not only see a transformation of service provision and customer satisfaction, but one which will increasingly see the Council able 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*

The Council develops all its services and policies within the context of the overall vision for the Borough "**Rossendale Alive**" developed by the Local Strategic Partnership. The vision is expressed through 8 themes setting out what Rossendale in 2020 will be like:

- **Community Safety** – a place where people do not live in fear of crime;
- **Health** – a place where vulnerable people are looked after and all residents can look forward to a long healthy life;
- **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;
- **Environment** – a place which has attractive rural settings, a fantastic street scene and is easily accessible for all;
- **Housing** – a place where people have a choice of high quality housing which is affordable for all;
- **Economy** – a place where job prospects and wages are high and the cost of living is low;
- **Community Network** – a place where all opinions count and people respect and celebrate difference in gender; sexuality; race; culture and religion;
- **Culture** – a place which is a cracking place to live for people of all ages and is widely accepted as a major place to visit.

As a community leader the Borough Council's role is to ensure all the key partners within the Borough are moving in the same direction towards achievement of this vision. However we are also directly responsible for a number of key services the development of which will make this vision a reality and we need to ensure that we are developing these services towards that ultimate goal.

The Council's direct contribution towards the achievement of "**Rossendale Alive**" is defined in its overarching mission of 8x8x2008. This means that by 2008 we are determined to have 8 out of 10 customers satisfied with our services and 8 out of 10 of our corporate priority indicators in the top quartile of performance.

As a service provider we share 5 of the “**Rossendale Alive**” objectives (Environment, Housing, Culture, Economy, and Community Network). However, given the Council’s history and the wider agenda for local government there are three further developmental objectives which are for the Council alone to deliver, although achievement in these areas will contribute to delivery of the “**Rossendale Alive**” vision.

- **Improvement** – the continuous provision of high quality public services built upon the foundations of Finance, Risk, Performance, Procurement and Human Resources Management
- **Customers** – being responsive and proactive to meet the needs of all our customers (i.e. “*Putting Customers First*”)
- **Partnerships** – increasing our capacity to deliver through effective partnerships

No local authority has unlimited resources, and for that reason it is important that we concentrate our efforts on those areas which will make most impact on achieving improvement against our objectives. This is why elected members have decided on a range of priorities for improvement. These are listed below together with the associated corporate objective:

- **Finance & Risk Management** (*Improvement*)
- **Member Development & Political Arrangements** (*Community Network*)
- **Human Resources** (*Improvement*)
- **Housing Stock Transfer** (*Housing*)
- **Customer Services** (*Customers*)
- **Revenues & Benefits** (*Partnerships*)
- **Street Scene & Liveability** (*Environment*)
- **Rawtenstall Town Centre** (*Economy*)

These are the 8 top priority activity areas where the Council has indicated that it is prepared to devote time and where necessary its own financial resources. In practical terms the sorts of things which this might mean in terms of financial resource impacts would include:

- Investment in Customer Service facilities and technology including the One Stop Shop and Call Centre.
- Investment in training and development of both staff and members.
- Refocusing the Council’s approach to housing investment in the event of Stock Transfer.
- The creation of a more localised and responsive service dealing with the Streetscene
- Changes to the Council’s accommodation.
- Member development programmes.

While these 8 priorities must be the focus of attention there are other important areas on which the Council must focus in order to both continue on its improvement journey and deliver “**Rossendale Alive**” The first group of these is a range of areas where the Council will move resources internally in order to secure improvement:

- **Performance Management** (*Improvement*)
- **Procurement Strategy** (*Improvement*)
- **District Vision** (*Partnerships*)
- **ELEVATE** (*Housing*)
- **Equalities** (*Community Network*)

In terms of change to the organisation what this might mean is that senior managers will bring forward proposals to elected members for reducing the scale of activity in some areas while increasing it in the areas identified above. The Organisational Review completed by the Council during 2004/05 is an example of this sort of activity.

The second group of areas where focus is required but which will not receive specific additional Council resources are those where additional expenditure or improvement can take place where external funding in terms of either income from fees and charge or government grants is realised. These are:

- **Leisure Services** (*Culture*)
- **Housing Services** (*Housing*)
- **Spatial Development and Building Control** (*Environment*)

The sorts of changes which might occur in these areas include the additional investment in the housing stock generated by a stock transfer, or the use of Planning Delivery Grant to improve the planning service.

The agreement of clear priorities by the Council is important as it allows officers to plan much more clearly and concentrate their efforts on delivering those things which are important to improving the quality of life of local people. It also makes it easier to develop a framework for assessing proposals to invest any additional resources which the Council might have available through the budget process each year.

It is important to realise that priorities change over time and that some things which are priorities now, such as the delivery of stock transfer will, in due course, cease to be priorities, while other priorities will emerge. What the Council will also need to do more explicitly as its planning processes develop is to identify a more refined understanding of the relative priority of different aspects of particular services, and in particular to understand which areas the Council might disengage from.

The Council also has to recognise the various external influences on its policy agenda and ensure an appropriate response to the various national and regional agendas so as to protect the interests of the Borough and to ensure that we are able to influence thinking in line with the aspirations of the people of Rossendale. The key national and regional agendas over the life of this strategy are likely to be:

- The shared priorities for local government which concentrate on the “liveability agenda”. In terms of the Council’s own priorities this particularly relates to the streetscene and the development of an active community network.
- The Sustainable Communities agenda, which in part focuses again on quality of life issues but also addresses issues around Housing Market Renewal and housing standards.
- The Northern Way, which is the growth strategy for the three Northern Regions and which looks to the creation of growth poles around so-called City Regions. In terms of Rossendale there will be key influences from developments in both the Manchester and Central Lancashire city Regions.
- The implications of the Regional Spatial Strategy and Joint Lancashire Structure Plan which will either constrain or free up development within the Borough in either case affecting the resource base and the demand for services.
- The 10 Year Vision for Local Government, which at present indicates a move toward more neighbourhood forms of governance. Taken at face value this could create pressure for significant change in the nature and quantity of services. It will also require greater focus on performance management in all its forms and on direct engagement with local communities.
- The agenda and targets set out in Sir Peter Gershon’s report on Public Sector efficiency and the targets arising from it. The Council’s response to this will form a key part of future CPA processes. While not specifically directing the Council down a commissioning route the commissioning thought process provides a powerful tool to the Council in improving the value for money secured through expenditure on services.

The priorities which the Council has already set and some of the structures which it already has in place such as Area fora do to a great extent address these national and regional agendas on a practical basis. The Council will need to develop its business planning process so that the broad policy direction and practical arrangements are properly linked and are all seen to contribute to the improvement process.

Thus overall the policy context within which the Council is operating is one which is focussed on improvement both in terms of services, in terms of quality of life outcomes and in terms of the Council’s ability to act as a community leader.

## FINANCIAL CONTEXT

### About this section

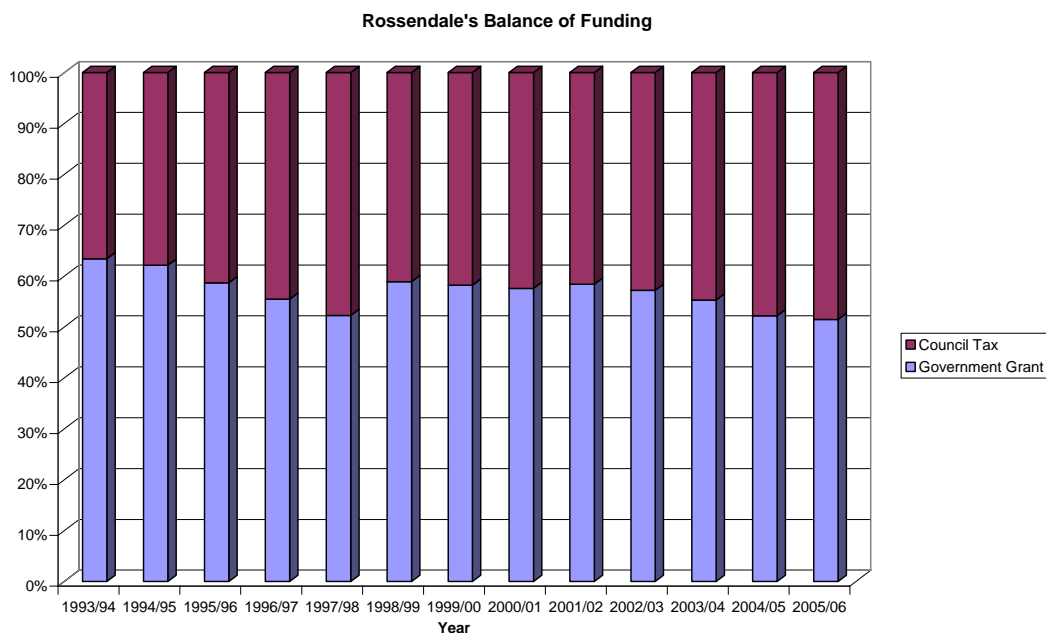
*This section briefly gives details of the Council's current and historic levels of resources and the way in which they have been utilised.*

*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:

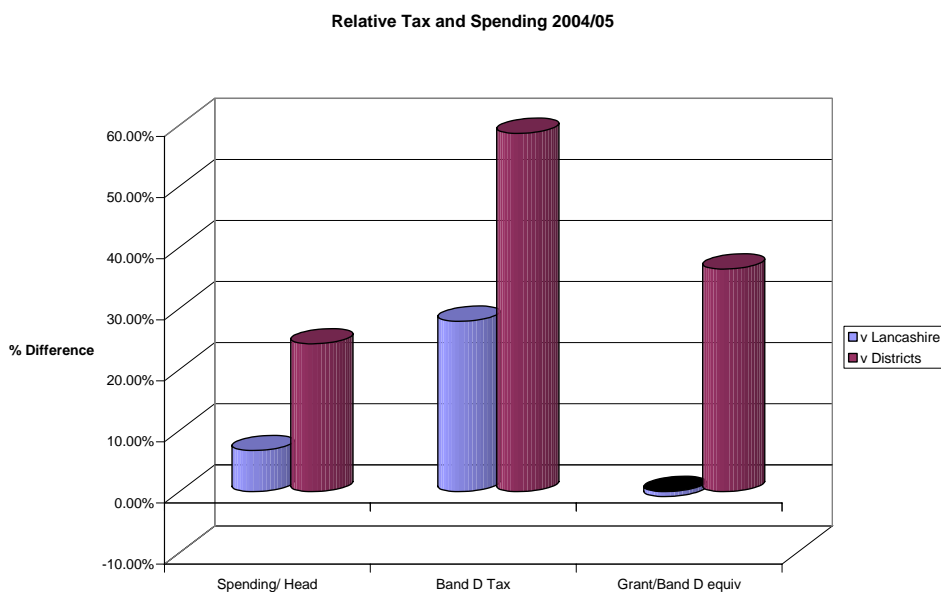


(Source – Budget Working Papers)



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 49% for 2005/06. 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 RSG Settlement Papers 2004/05)

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 can be further illustrated in the table below:

**Table 1 – Cash Differences Between Rossendale and Regional and National Averages**

<b>Compared to</b>	<b>Spending £000</b>	<b>Council Tax at Band D £</b>	<b>Grant £000</b>
Lancashire	+677	+45.99	-262
All English Districts	+1,840	+77.18	+4,251

(Source RSG Settlement Papers 2004/05)

Clearly Rossendale is a more deprived area, than the average district, or it would not receive so much funding through the grant system. 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.

These facts raise a range of questions for elected members, set out in the box below:

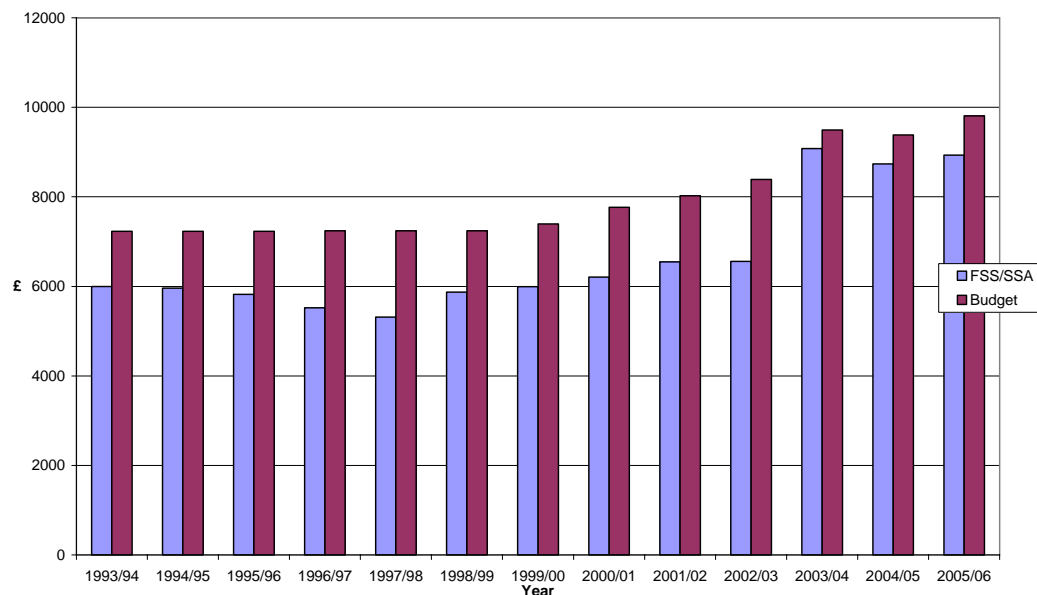
**Questions for members:**

- *Are we happy with having amongst the highest district council taxes in England?*
- *If not, do we have a view over whether we should move closer to the English or Lancashire average, and if so over what period of time?*
- *Given that we wish to bring Rossendale's level of council tax closer to the average are we prepared to accept real terms reductions in expenditure year on year?*

Historically it has been argued that Rossendale is under-funded relative to other local authorities. The figures for grant levels set out above would 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, although no more than any other district. 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

Spending and Assessed Need Compared



(Source Budget Working Papers)

It is clear that there is some factor, or factors, 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 or factors 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 2003/04 and 2004/05 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, looking only at the 2004/05 figures as the pattern of difference is similar over the two years. (Note - means less spending or more income than the average, while + is more expenditure or less income).

Service Area	Rossendale v Average District		
	£/head	%	£000
Corporate and Democratic Core <i>This heading covers the central corporate management of the Council including the costs of members.</i>	-5.70	-28.5%	-374
Culture and Heritage <i>This heading includes facilities such as museums, public halls and arts centres.</i>	-3.41	-59.1%	-224
Parks and Open Spaces <i>This heading covers both formal parks and amenity open spaces, but not specific recreational facilities such as football or cricket pitches.</i>	+5.90	+67.0%	+388
Planning <i>This heading includes Development Control, Building Control and Forward Planning.</i>	-3.50	-30.7%	-230
Parking <i>This comprises the costs of off street parking, where the average district generates a net income.</i>	+6.04	+99.0%	+397

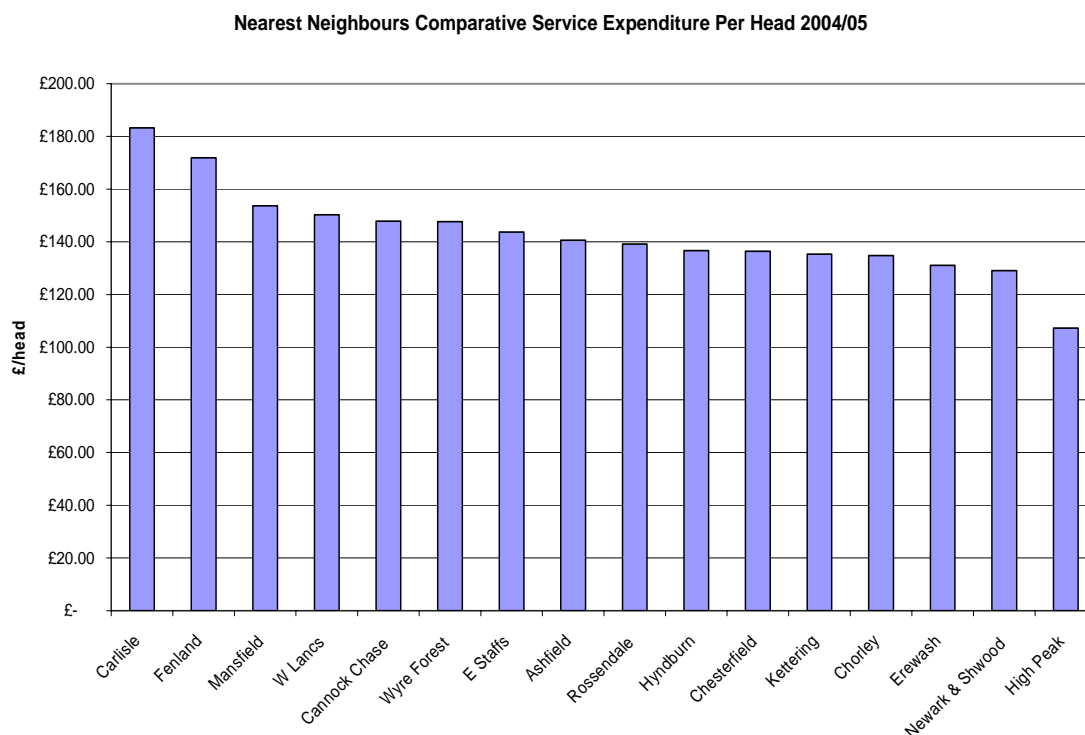
(Source CIPFA Finance and General Statistics 2004/05)

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 made specific decisions about their priority for resources. Thus, 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 made a conscious decision not to introduce off street parking charges. Again this provides a legitimate policy reason for difference.

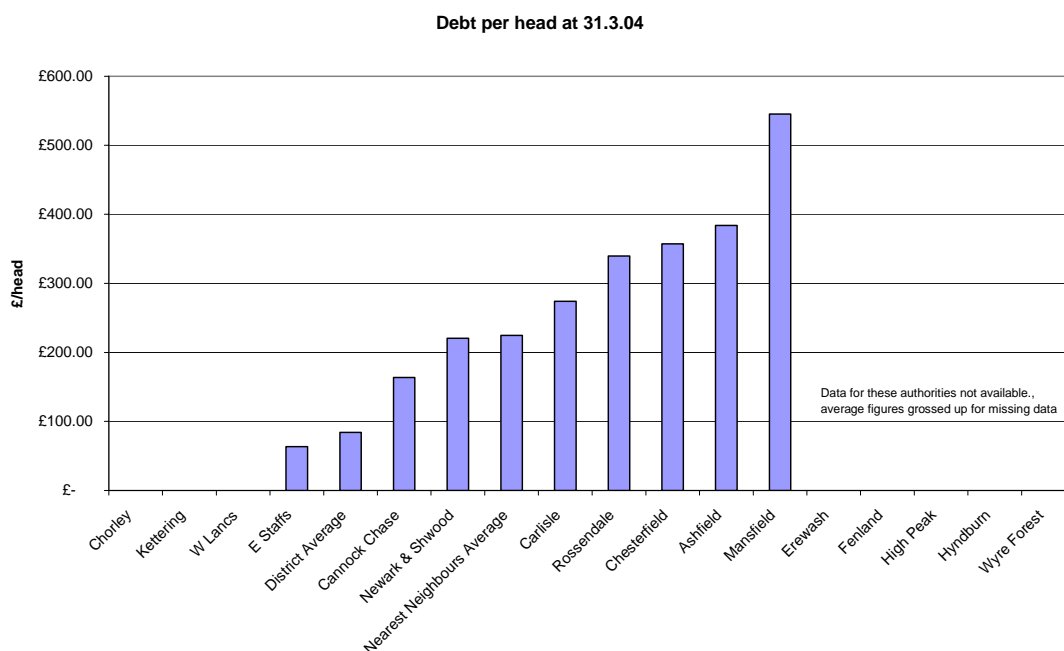
3. In the case of parks and open spaces there is an historic legacy issue which causes higher levels of expenditure. The Council has inherited a major park in each main town, together with a wide range of smaller facilities. Clearly the more facilities that exist the greater the volume of activity necessary to maintain them and the greater the cost. This provides a legitimate difference. What would not be legitimate and where members might want to take action would be if the cost of maintaining each hectare of park was significantly greater than the average. 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.

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 total service expenditure ranks 9 out of 16 and is just below the median. This is illustrated in the graph below.



(Source CIPFA Finance and General Statistics 2004/05)

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 former element is one where Rossendale due to historic long term financing decisions shows significant difference from averages as illustrated below:



(Source CIPFA Local Authority Assets Statistics at 31<sup>st</sup> March 2004)

The above figures reflect total levels of debt rather than levels of interest and principal repayment. However, the logical conclusion is that the higher the level of debt the greater these figures will be. Each Council's debt portfolio will comprise a range of different loans of differing maturities with different interest rates and will in the case of housing authorities be differently split between the General Fund and Housing Revenue Account. Even taking account of all these elements the difference between Rossendale and the average would indicate that this level of debt is a significant contributor to the high level of budget requirement. In addition the following analysis of the loan portfolio shows that there are some significant value for money issues within the portfolio for the Council to address.

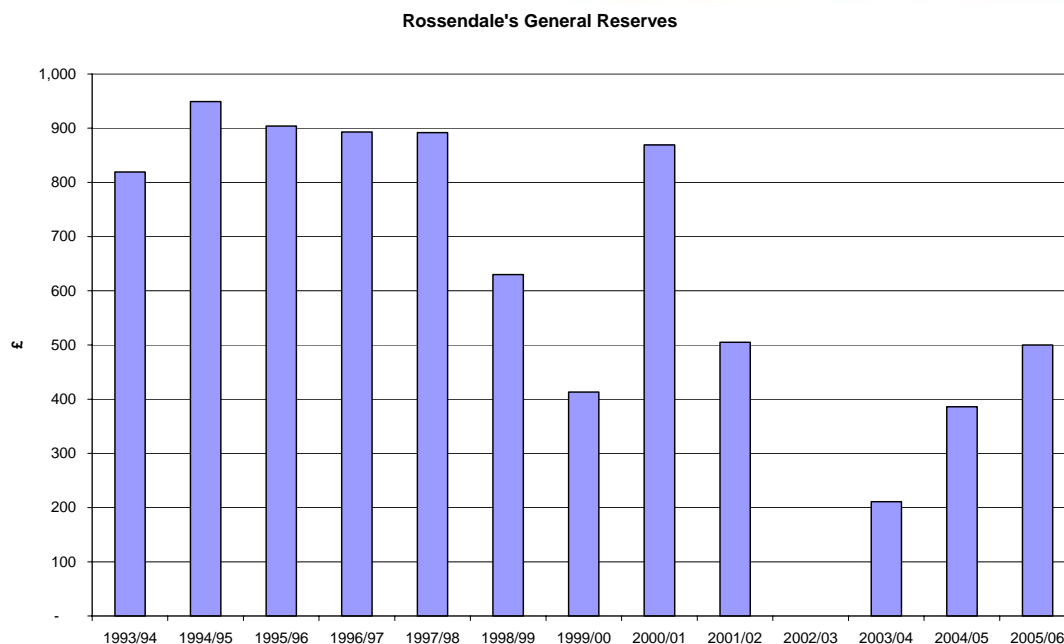
Type of Loan	Loans Outstanding May 2005 £000	Interest Rate Range %	Maturity Between
PWLB Maturity	12,700	4.45% - 9.00%	Sept 2005 and Sept 2034
PWLB Annuity	156	5.88%	-
Market Maturity	10,000	4.05% - 11.75%	May 2020 and May 2042
	22,856		

(Source Sector Treasury Strategy Review May 2005)

The possibility of Stock Transfer will allow the Council to fundamentally reappraise its debt portfolio and give a breathing space to reappraise how it deals with capital finance issues. However, even after stock transfer current best estimates are that levels of debt expressed in terms of £/head of population will be some 80% greater than the average district. While efforts will be made to achieve a better result than this post stock transfer they cannot be guaranteed to be effective and planning needs to continue on the current basis.

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. Given, that the recovery plan for reserves ends with the 2005/06 budget this difference will be significantly reduced in future years.

Another key factor in understanding the financial context for revenue spending in Rossendale is the position in relation to the Council’s general reserves. This is illustrated in the graph below.



(Source: Budget working papers)

This graph illustrates significant, and unrepeatable use of reserves to mitigate the rate of increase in the Council Tax, leading up to an exhaustion of general reserves in order to kick start the recovery programme following the Corporate Governance Inspection in 2002. Reserves have subsequently recovered to the target level of £500k, through a combination of budgeted contributions and tight control on spending. The Council was lucky over this period to avoid statutory action over its financial standing.

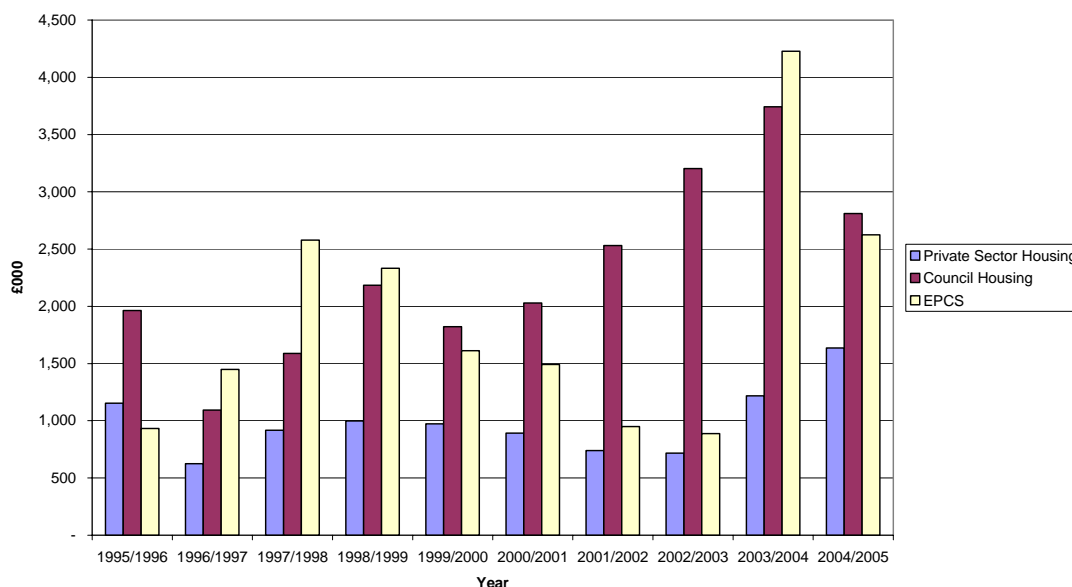
Developing thinking and practice in local authority financial management is to view reserves as part of the longer term strategy for delivering investment in key services rather than as a short term expedient. Thus Councils are beginning to develop financial policies around the maintenance, level and use of reserves, with particular reference to the range of risks faced by the organisation.

### Capital Spending and Resources

While revenue spending is the most publicly visible element of the Council's finances because it is 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, but also on the nature and quality of the services provided by the Council. The graph below shows the historic pattern of capital expenditure in Rossendale.



Capital Spending Trends



(Source Capital Programme Working Papers)

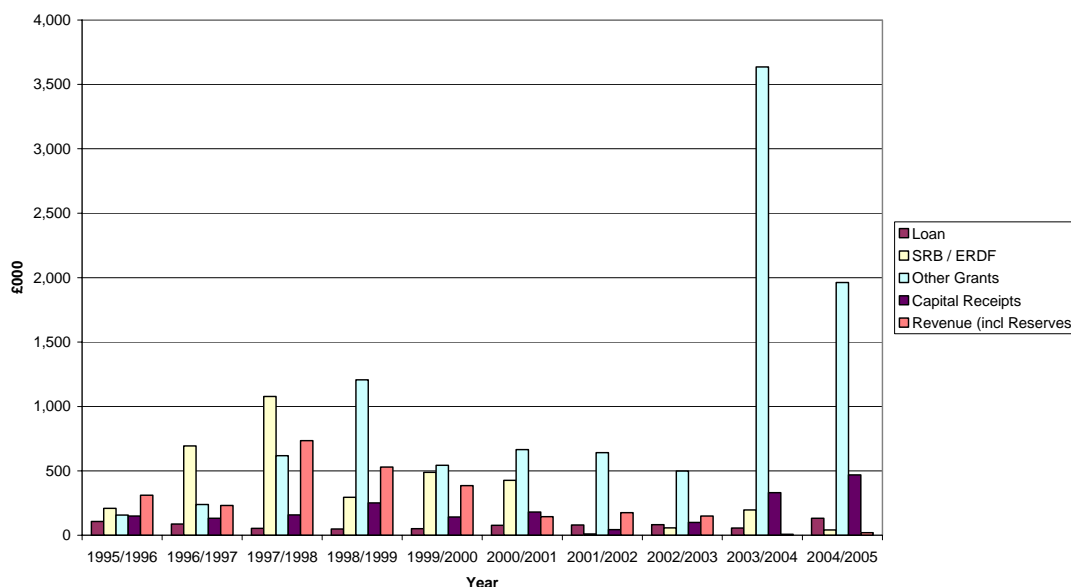
The preponderance of spending on housing over the whole period would be typical of most District Councils. In particular in recent years this has been boosted by the advent of the Major Repairs Allowance and funding from the Elevate programme. However, from the point of view of this strategy the key 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.

At present the Council has a significant lack of information around the quality and suitability of its asset base. However, anecdotally the quality of the asset base is poor and there is a significant backlog of maintenance (estimated at £1.8m in June 2004 on the 5 sites transferred to Rossendale Leisure Trust alone). This is clearly likely to generate significant spending need over the coming years in order to maintain assets in a useable condition. However, this has already to some extent been mitigated by the decisions taken by the Council in relation to its medium term accommodation strategy.

Similarly it is generally acknowledged that the Council's ICT provision is 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.

Thus there is likely to be a need to focus investment in coming years more internally than has been the case previously. This can be seen in the chart below which illustrates how the EPCS programme has been financed historically.

Financing the EPCS Programme

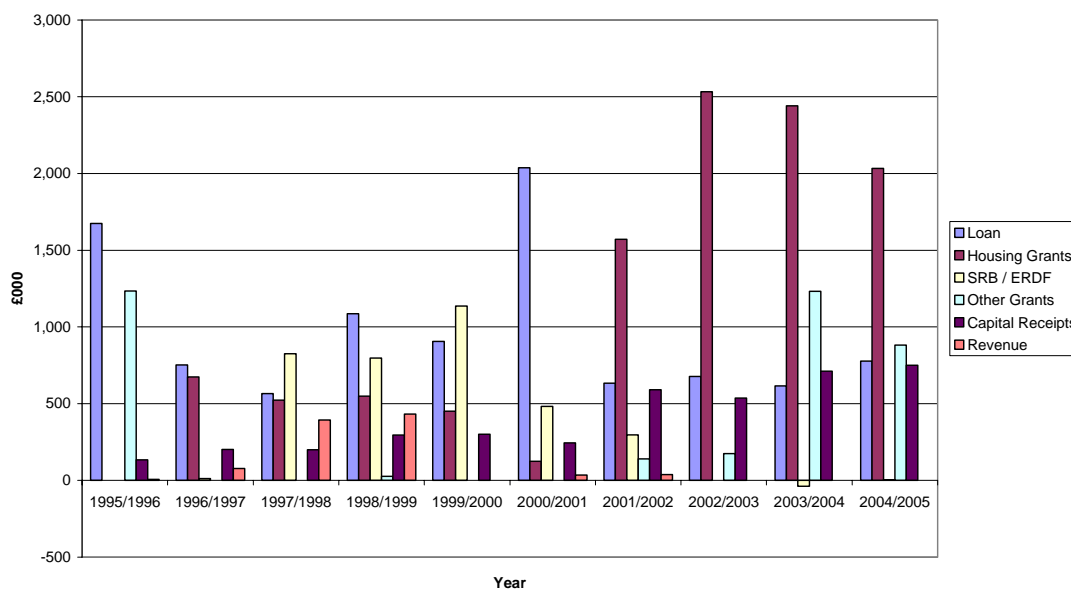


(Source Capital Programme Working Papers)

What this chart shows is the 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, what this illustrates is that 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 the pressure on the Council's revenue budget has impacted upon the capital programme.

In contrast resources for the Housing programme have historically been more available than for core service provision, as illustrated in the chart below:

Financing the Housing Programme



(Source Capital Programme Working Papers)

What this shows is that the Council has allocated the bulk of its borrowing power to housing schemes (in order to maximise subsidy) together with the bulk of available capital receipts, which are a corporate rather than a housing specific resource. This reflects a policy of using right to buy receipts to supplement the resources available for the Private Sector Housing programme. In the context of a transfer of the Council's housing stock right to buy receipts will become a declining source of income. Thus if the Council wishes to maintain spending on private sector housing at the same levels as previously additional sources of resources will need to be identified, unless investment in core services is to be reduced. To some extent this has already been done through the adoption of equity release and loan arrangements in response to the Regulatory Reform Order in this policy area. Work will be required to benchmark the resources devoted by the Council to this area with other similar councils.

A number of questions for members arise from the capital resource context spelt out above,

**Questions for members:**

- *What is the relative priority of capital spending on core services and private sector housing in the context of a likely decline in available capital receipts?*
- *Do we have a view on how core service capital resources should be targeted to address the key internal issues we face?*
- *Do we wish to reduce the Council's level of borrowing to finance capital investment in order to reduce the revenue impact of capital spending? And, if so, are we prepared to sell assets to achieve this, and still deliver our aspirations for capital projects?*

## 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.*

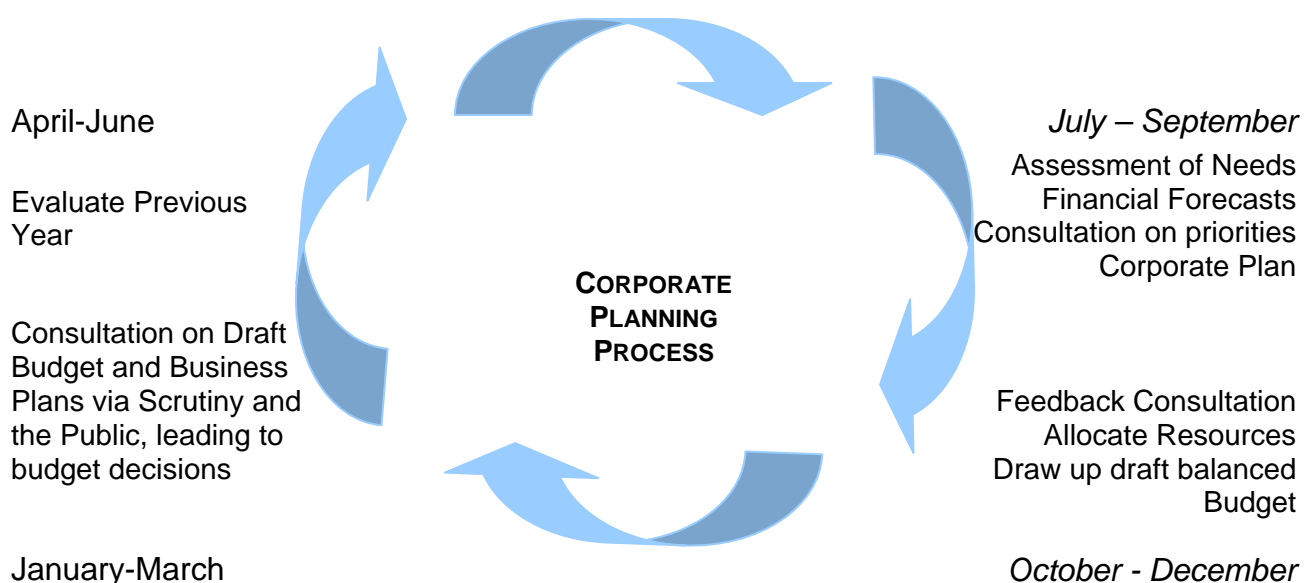
*These are important because they provide a framework of rules within which managers can plan and manage resources. They also allow for the policy debates of elected members to be informed by the views of the wider community obtained through consultation.*

### **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:

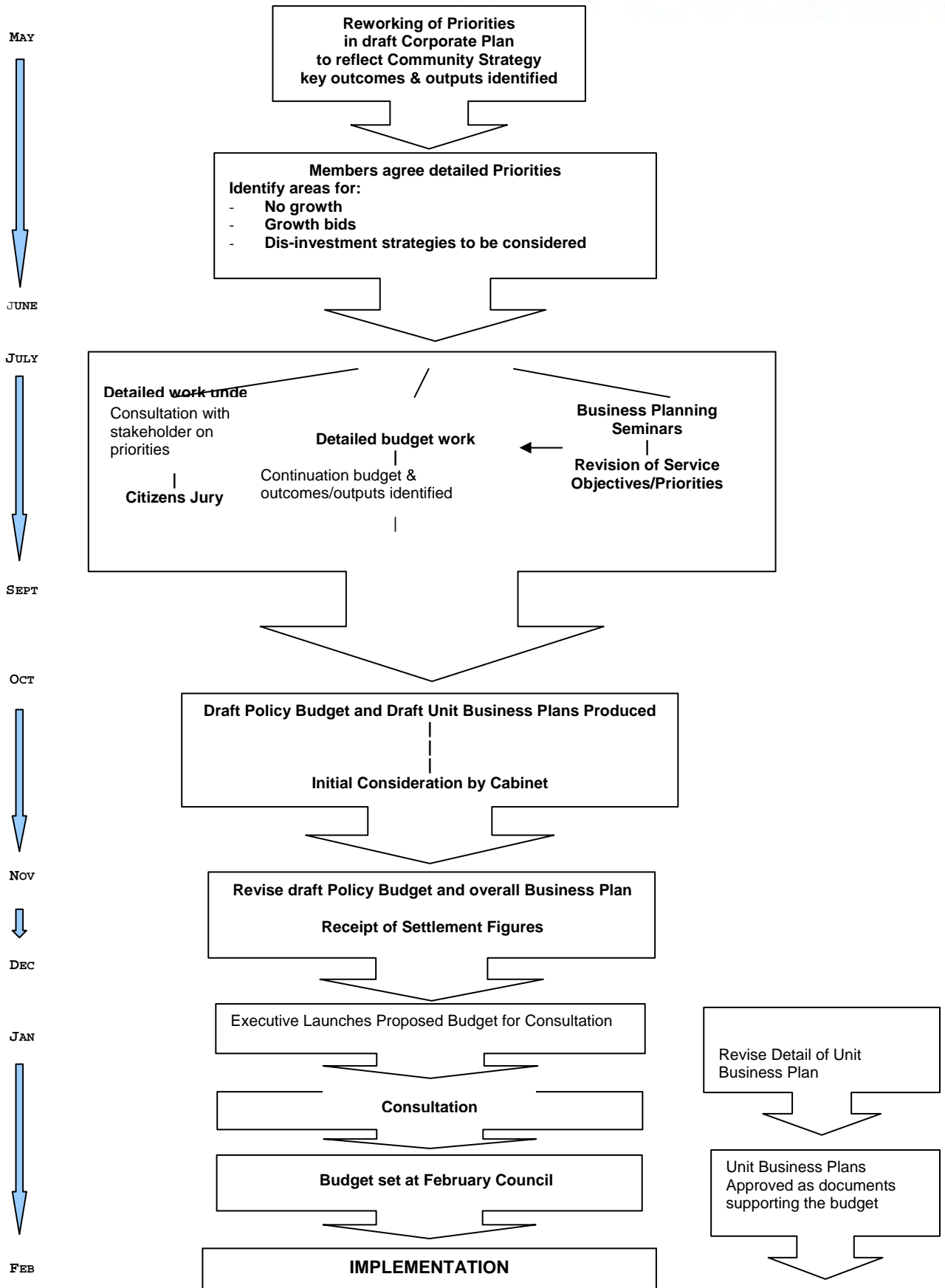


Key elements throughout this process are:

- 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 is set out in the diagram overleaf, although this will only apply in full for the 2007/08 and subsequent budget cycles.

A key driver within the financial planning process at the beginning of this planning period is the opportunity presented by the new Community Strategy for the Council to reassess its priorities. 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.



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
- 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 Housing Stock Transfer and the impact of Single Status on the pay bill
- The revenue effects of the capital programme

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. While currently this approach is best practice it is likely that it will receive some form of statutory backing when the Government introduces Three-Year Financial Settlements for local authorities.

### **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 the widest possible understanding of financial issues

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

- All reporting is based upon service unit controllable expenditure against rolling cash budgets
- Financial Procedure Rules give significant flexibility in terms of freedom to vire and carry resources forward between years in order to achieve the Council's policy objectives
- Managers will from 2006/07 sign to accept their budgets and budgetary control performance indicators will be set for each service unit

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 ongoing work on Financial Management by the Audit Commission. In particular the following key actions from the previous review of Financial Management by the Audit Commission will have an impact:

- 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 under the Council's new Executive Arrangements.
- The development and implementation of competency frameworks for managers and finance staff in relation to financial management. Linked to the Council's overall approach to competencies and the delivery of the business planning approach.
- The delivery of a comprehensive training programme based upon the competency framework for all managers,
- Redesign of financial reporting following the implementation of the new financial systems to ensure the production of more consistent and timely information which meets the needs of managers.

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.*

### **Planning Scenario**

The forecasts which are contained within this strategy are based upon the assumption that the Council's housing stock is transferred before the start of the 2006/07 financial year. The reason for this is that, while the result of the ballot on stock transfer is not yet known this is a more pessimistic scenario than maintenance of the status quo. A decision by tenants in the ballot to reject the option of Stock Transfer will in the first instance be marginally more favourable for the General Fund, although there would be an impact in the later years of the planning cycle as the effects of the need to reduce costs in the Housing Revenue Account is passed on to the General Fund.

### **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.

#### **Summary Revenue Expenditure Forecast - Continuation of Existing Commitments**

	2006/07 £000	2007/08 £000	2008/09 £000
Initial Budget Requirement	9,809	10,087	10,583
Inflation	311	333	331
Increments	66	70	73
Revenue Effects of the Capital Programme	71	94	115
Full Year Effect of Previous Years' Growth and Savings	-234	0	0
Technical and Volume Changes	387	0	0
Interest and Financing Costs	-25	0	0
Effects of Legislative or Statutory Changes	-183		
Change in Use of Reserves	-115	0	0
Forecast Budget Requirement	10,087	10,583	11,103
% Change in Budget Requirement	2.8%	4.9%	4.9%

- **Pay** – Pay Awards in line with the national 3 year agreement, with the third forecast year being at the same rate as the last year of the agreement.
- **Pension Contributions** – Employers contribution rate rises to 18% of pay in steps over the period, as a result of the triennial (three yearly) valuation. In addition a crude estimate of a further 1% increase in the first year has been made as a result of Stock Transfer.
- **Investment Returns and Capital Financing** – Estimates based on current cash flows, 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, 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
- **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, in particular the cost of single status, which at present cannot be quantified. While Single Status may be the most financially significant of the possible areas of new commitment there are a range of others, including

- 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 Rossendale Alive 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.
- The continuing journey from provider to commissioner. At the time of writing this journey is accelerating significantly and the Council will need to be in a position to understand how the cumulative journey affects its overall cost base.

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 is likely to cause the Council to have to rethink some of its priorities. For example currently Leisure is not an area for new investment, unless it can be self financed. However, certain elements of Leisure provision can make a very significant positive impact on the Community Safety agenda by tackling youth nuisance in a positive way. Thus the Council might wish to invest in areas which are not currently priorities in order to achieve its wider policy goals.

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%, 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%.*

**Key Assumption 3**

*The increase in expenditure arising from the changes to the statutory concessionary fares scheme will be cost neutral to the Council in line with statements from the Office of the Deputy Prime Minister.*

**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.
- b) The Council's relative spending need as assessed through the Formula Spending Share. The new formula introduced in 2003/04 does direct more resource to Rossendale through this factor. However, as prosperity within the Borough increases certain key factors in the formula will begin to direct resources elsewhere. The ODPM are currently consulting on changes to the formula and the grant system which appear broadly favourable to the Council. However, at this stage as these are only proposals for consultation and there is a very wide range of possible outcomes they have been ignored for forecasting purposes.

- 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 was affected by this mechanism for the first time in 2005/06, although to a relatively small extent compared to other districts within Lancashire (such as Burnley, Pendle and Chorley) which have each lost in excess of £1m in grant over a three year period.

In addition to the effects of any changes in the formula grant will change as the result of the addition of £350m nationally to meet the costs of changes to the concessionary fares scheme. At this stage it is being assumed that this addition will match the likely additional expenditure, although further work is being done across Lancashire and Cumbria to determine the likely level of additional expenditure.

There are two 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

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. The first payments under the scheme will be made in February 2006 for the 2005/06 financial year, and then annually thereafter. In some years it is possible that a council will receive no funds by this route and in other years quite considerable funds. In addition because of the way in which the base data in relation to rateable value growth is calculated 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. In addition the Council might wish to suggest to the County Council that their share of the proceeds of this scheme which relate to Rossendale should be invested in the Borough.

The Public Service Agreement Reward Grant is a one off payment the size of which will depend upon the degree to which the stretch targets within the Lancashire wide PSA have been achieved. This will be paid in two instalments in 2006/07 and 2007/08 with an equal split between revenue and capital resources. Again this income is uncertain 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.

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

**Key Assumption 4**  
Total Formula Grant (ignoring the effect of concessionary fares) will increase at 2.9% year on year, equating to £125k a year.

**Key Assumption 5**  
Additional resources for concessionary fares within Total Formula Grant will equate to the required expenditure increase.

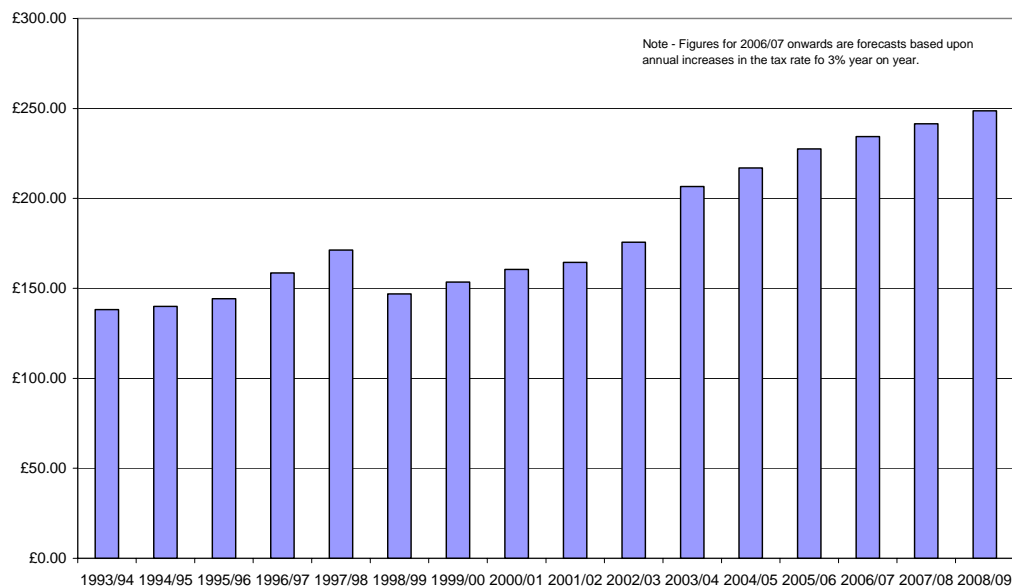
**Key Assumption 6**  
Any proceeds from the Local Authority Business Growth Incentive scheme will be earmarked for future economic regeneration projects and will not affect underlying expenditure.

**Key Assumption 7**  
Any proceeds from the Local Public Service Agreement Reward Grant will be earmarked 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)

Rossendale's Council Tax Rates



(Source Budget working papers)

It should be emphasised that the figures for 2006/07 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 8***

*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 9***

*The Collection Fund will run in balance after year 1 of the planning cycle, 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.

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 Councils 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:

**CCTV Reserve** – For the maintenance of the CCTV system in the Borough. These costs will ultimately fall to the revenue budget.

**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.

**Strategic Risk Management Reserve** - To offset the risk of abortive costs in the event of a negative vote in the Stock Transfer ballot.

**PSA Service Improvement Reserve** – As indicated above to hold PSA reward grant for investment targeted at achieving PSA 2 targets.

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

**Building Maintenance Reserve** - To address, at least in part, the Council's backlog of building maintenance expenditure.

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

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.

		Balance at 31st Mar 04 £000	Balance at 31st Mar 05 £000	Balance at 31st Mar 06 £000	Balance at 31st Mar 07 £000	Balance at 31st Mar 08 £000
<b>General Reserves</b>		211	386	500	500	500
<b>Earmarked reserves</b>						
Vehicle Reserve (1)		349	-	-	-	-
Leisure						
- Fitness Suite (2)		52	-	-	-	-
- Ski Slope matting (2)		36	-	-	-	-
Capital Projects (2)		514	258	-	-	-
Whitaker Park (2)		15	-	-	-	-
CCTV		16	17	9	-	-
Change Management Reserve		-	323	549	300	150
Strategic Risk Management Reserve (3)		-	349	-	-	-
PSA Service Improvements (5)					25	50
Single Status Reserve (4)					400	275
Building Maintenance (4)					376	200
Economic Regeneration Projects				?	?	?
<b>Total Earmarked Reserves</b>		982	947	558	1,101	675
<b>Total Reserves</b>		1,193	1,333	1,058	1,601	1,175
Transfers from HRA (6)		-	-	-	776	-

Notes

(1) Transferred to Strategic Risk Management Reserve

(2) These reserves have now either been closed or fully utilised for the purposes for which they were created.

(3) Assuming a positive ballot result for stock transfer this reserve will be closed and transferred to the Change Management Reserve

(4) The split of resource between these two reserves is illustrative only

(5) This figure is an estimate of the revenue element assuming approximately 50% achievement of targets.

From the above it is clear that the Council has to the extent possible used the revenue reserves available to it to cover off the major strategic risks which it faces, including the effect of a negative result in the Stock Transfer ballot. Should there be a positive vote for Stock Transfer some resources will clearly be freed up which will come back to the General Fund at the point of transfer. In this event it would be sensible to use resources freed up to deal with the transitional costs of the Single Status agreement (e.g. implementation and pay protection costs). It seems unlikely that this will utilise all the resources likely to be available and it would also make sense in this context to use any further sum to begin to address the backlog maintenance issues which the Council faces. Again these actions will reduce the Council's financial risk exposure in relation to its General Reserves over time.

At the current time the Council has set itself a one dimensional target level for general reserves of £0.5m. This represents approximately 5% of the 2005/06 budget requirement, which is the level indicated as a minimum by the Audit Commission in the previous CPA Use of Resources methodology. While this methodology has now been superseded a percentage of budget requirement is one way of assisting in determining the acceptable level of reserves. Certainly, even with the major strategic risks to some extent covered by earmarked reserves a minimum target of 5% of budget requirement or £0.5m would seem prudent. This allows for some capacity to deal with unexpected issues such as legal claims and pay awards, but it would also be sensible to set a maximum level for general reserves, giving a flexible range within which to operate, rather than trying to aim for a fixed pint within an increasingly dynamic environment. Such flexibility also ensures that it is possible to maintain balances as a proportion of budget requirement as the budget requirement grows over tiem. This is outlined in the table below:

	Cash Sum £000	As % of 2005/06 Budget Requirement
Minimum Level of General Balances	500	5.1%
Maximum Level of General Balances	750	7.6%

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

**Key Assumption 10**

*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 11**

*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.*

**Key Assumption 12**

*In the event of a positive vote for Stock Transfer the reserves held to mitigate the risk of a no vote, together with any balances ultimately transferred from the Housing Revenue Account will be released to mitigate the transitional costs of implementing the Single Status Agreement. Any resources in excess of those required for this purpose will be earmarked to address backlog maintenance issues.*

**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:

	2006/07 £000	2007/08 £000	2008/09 £000
Forecast Budget Requirement	10,087	10,576	10,901
Headroom for Growth	18		
Requirement for Savings		-170	-186
Forecast Resources	10,105	10,406	10,715

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.

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 13**

*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 14**

*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** – The first two years of the planning period are covered by a long term agreement and thus are already known, the forecast assumes a continuation of awards at around the agreed level. While there is some risk in this there is time for the Council to adjust its plans as the situation develops.
- **Pension Costs** – This is a particularly high risk area as the Council moves from provider to commissioner of services. An allowance of 1% of pay has been made in the forecast in relation to Stock Transfer, with further allowance in year 3 when the next regular fund revaluation is due. However, until detailed actuarial figures are available there can be no clarity on the cost. There are, though, other options for mitigating the risk as reflected in the Stock Transfer and these will be pursued in the negotiations with Greenvale Homes.
- **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 monitoring.

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

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.

## CAPITAL PROGRAMME FORECAST

### **About this section**

*This section sets out the forecast levels of capital 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.*

### **Planning Scenario**

As with the Revenue Forecast the planning scenario assumes a successful stock transfer. The impact of this in terms of reducing right to buy receipts will it is assumed not begin to be felt until 2009/10 at the earliest, although this is still subject to negotiation with Greenvale Homes.

As with the revenue forecast this is to some extent the worst case in resource terms, although clearly in the event of a negative ballot result a significant reprioritisation of the overall programme would be necessary.

### **Capital Spending**

The table below summarises the current three year spending plan, assuming a continuation of current policies into 2008/09.

	Forecast Spending			
	2005/06 £000	2006/07 £000	2007/08 £000	2008/09 £000
Private Sector Housing	4,105	4,723	4,691	4,700
Streetscene & Liveability	514	-	-	-
Leisure Facilities	1,342	160	-	-
Regeneration	554	1,605	1,350	1,054
Corporate – ICT & E Government	474	-	-	-
Corporate – Accommodation Strategy	803	-	-	-
Corporate – Other	756	140	-	-
<b>Total</b>	<b>8,548</b>	<b>6,628</b>	<b>6,041</b>	<b>5,754</b>

When the current programme was approved commitments in future years were deliberately limited in order to allow the Council flexibility to reorder its priorities for capital spending in the light of the ongoing work to develop a robust Asset Management Plan and the need to gain a better understanding of the spending needed to deliver certain key strategies such as the One Stop Shop and Customer Service. This means that currently the programme is under-committed to allow space for this sort of reassessment to be carried out.

In addition subsequent to approving this programme the Council agreed to earmark the proceeds arising from the rationalisation of office accommodation for the landmark civic building which is intended for Queen’s Square as part of the Rawtenstall master plan. The table below isolates the funding for this strategy

	£000
Assets to be Disposed of	2,335
Add corporate capital resources previously earmarked for One Stop Shop	100
Add revenue contribution re Housing Service	244
<b>Total Resources</b>	<b>2,679</b>
Less:	
Contribution to Whitworth Civic Hall previously agreed	300
Spending required	803
<b>Total Spending</b>	<b>1,103</b>
<b>Resources Available for Civic Building</b>	<b>1,576</b>

Clearly further resources will be required to fully fund this aspiration. However, this is a significant start to the delivery of this project.

Leaving this significant aspiration aside there are a number of issues that will need to be addressed through the internally funded capital programme in the coming years, in particular:

- The relative priority attached to the core private sector housing programme, given the changing nature of the housing market within the Borough and the identified needs around affordable housing.
- The need to address the maintenance backlog in relation to the Council’s assets, although some of this need will be mitigated through the process of rationalising accommodation.
- 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, 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.

The key assumptions around capital spending going forward are:

**Key Assumption 15**

*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 16**

*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.*

The detail of how these assumptions will affect capital spending will need to await the production of the Asset Management Plan, informed by ongoing work to establish the condition of the Council's property assets.

### Capital Resources

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

Funding Source	Total Funding £000	2005/06 £000	2006/07 £000	2007/08 £000	2008/09 £000
Internal Resources					
Capital Receipts b/f	1,504	1,504			
Capital Receipts – Housing	3,632	908	908	908	908
Capital Receipts – General Fund	2,955	120	2,635	100	100
Supported Borrowing	776	193	193	193	193
Insurance Receipts	963	963	-	-	-
Revenue Contributions	244	244	-	-	-
Capital Reserves	258	258	-	-	-
<b>Total Internal Resources</b>	<b>10,328</b>	<b>4,190</b>	<b>3,736</b>	<b>1,201</b>	<b>1,201</b>
External Resources					
English Heritage	-	-	-	-	-
NWDA / ERDF	20,153	3394	5,855	5,600	5,304
Office of the Deputy Prim Minister	1,044	497	197	175	175
Miscellaneous	168	88	80	-	-
Commercial Lenders (Private Sector Housing)	450	-	150	150	150
<b>Total External Resources</b>	<b>21,815</b>	<b>3,979</b>	<b>6,282</b>	<b>5,925</b>	<b>5,629</b>
<b>Total Available Resources</b>	<b>32,143</b>	<b>8,169</b>	<b>10,018</b>	<b>7,126</b>	<b>6,830</b>

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

<p><b>Key Assumption 17</b></p> <p><i>Capital receipts through retained right to buy following stock transfer will continue at the current level until 2009/10</i></p>
<p><b>Key Assumption 18</b></p> <p><i>In line with the revenue forecast up to £0.5m of supported borrowing per year has been assumed. On the basis that all borrowing post stock transfer will fall to the General Fund. Further it is assumed that future borrowing will be on the basis of ongoing repayment of principal.</i></p>
<p><b>Key Assumption 19</b></p> <p><i>Forward projections of external funding reflect current knowledge of allocations.</i></p>

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:

<p><b>Key Assumption 20</b></p> <p><i>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.</i></p>
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At present the assumptions made around the sale of General Fund assets, other than those affected by the Accommodation Strategy, is that these will be significantly restrained by current planning policy. However, there is as yet no clear picture of what the totality of the opportunities for disposal might be within the whole of the Council's estate. This will only become clear after the completion of the Asset Management Plan, at which point members will be able to take properly informed decisions with regard to retention or disposal.

### **Matching Capital Expenditure and Resources**

Based on the forecasts above the overall position in terms of available capital resources is as set out below:

	£000
Total Forecast Resources	32,143
Less Forecast Spending	26,971
<b>Available Resources</b>	<b>5,172</b>
Less: Resources Set Aside For Civic Building	1,576
<b>Resources Available for Other Investment</b>	<b>3,596</b>

The Council will be able to consider how it might utilise these 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, and given the current level of under commitment there is sufficient margin to manage the risks as currently foreseen in terms of potential to overspend and reductions in internal resources, in particular capital receipts.

## **APPENDICES**

Appendix 1 Comparative Spending Levels

Appendix 2 Detailed Expenditure Forecast

Rossendale's Spending Compared to the Nearest Neighbours 2003/04, 2004/05 and 2005/06	2003/04				2004/05			
	Neighbours £/head	Rossendale £/head	Difference £/head	%	Neighbours £/head	Rossendale £/head	Difference £/head	%
Corporate & Democratic Core	20.52	12.48	-8.04	-39.2%	20.60	14.29	-6.31	-30.6%
Unapportionable Central Overheads	4.19	4.26	0.07	1.7%	4.76	4.00	-0.76	-16.0%
CTB Administration	4.03	3.61	-0.42	-10.4%	4.66	4.38	-0.28	-6.0%
Other Local Tax Collection Costs	6.27	5.08	-1.19	-19.0%	6.45	5.46	-0.99	-15.3%
Emergency Planning	0.10	0.00	-0.10	-100.0%	0.12	0.05	-0.07	-58.3%
Other Central Services to the Public	2.61	3.18	0.57	21.8%	1.80	3.20	1.40	77.8%
Total Central Services	37.72	28.61	-9.11	-24.2%	38.39	31.38	-7.01	-18.3%
''								
Culture & Heritage	5.75	2.54	-3.21	-55.8%	6.54	2.36	-4.18	-63.9%
Sport & Recreation	13.40	11.25	-2.15	-16.0%	13.33	9.60	-3.73	-28.0%
Parks & Open Spaces	10.11	9.77	-0.34	-3.4%	10.67	14.70	4.03	37.8%
Tourism	1.60	1.28	-0.32	-20.0%	1.64	0.82	-0.82	-50.0%
Cemeteries & Crematoria	0.54	3.00	2.46	455.6%	0.47	-0.96	-1.43	-304.3%
Licensing	0.34	0.17	-0.17	-50.0%	0.44	0.44	0.00	0.0%
Community Safety	2.21	0.79	-1.42	-64.3%	2.70	0.78	-1.92	-71.1%
Consumer Protection	0.00	0.00	0.00	0.0%	0.00	0.00	0.00	0.0%
Street Cleansing & Litter	6.49	7.63	1.14	17.6%	7.52	7.40	-0.12	-1.6%
Waste Collection	15.57	22.32	6.75	43.4%	17.83	18.10	0.27	1.5%
Waste Disposal	0.00	0.00	0.00	0.0%	0.00	0.00	0.00	0.0%
Planning	9.45	7.70	-1.75	-18.5%	9.35	7.90	-1.45	-15.5%
Economic & Community Development	4.51	3.84	-0.67	-14.9%	6.62	3.61	-3.01	-45.5%
Environmental & Public Health Services	10.98	10.21	-0.77	-7.0%	11.27	9.27	-2.00	-17.7%
Other Services	1.24	1.03	-0.21	-16.9%	1.23	1.02	-0.21	-17.1%

**Medium Term Financial Strategy  
2006/07 – 2008/09**

Rossendale's Spending Compared to the Nearest Neighbours 2003/04, 2004/05 and 2005/06	2003/04				2004/05			
	Neighbours £/head	Rossendale £/head	Difference £/head	Neighbours %	Rossendale £/head	Difference £/head	0.00 £/head	0.0% %
Total Cultural, Environmental and Planning Services	82.19	81.53	-0.66	-0.8%	89.61	75.04	-14.57	-16.3%
Other Traffic Management & Road Safety	0.10	0.00	-0.10	-100.0%	0.06	0.00	-0.06	-100.0%
Parking	-3.54	-0.11	3.43	-96.9%	-4.22	-0.06	4.16	-98.6%
Public Transport - Concessionary Fares	3.98	4.44	0.46	11.6%	4.03	4.58	0.55	13.6%
Other Public Transport	0.13	0.49	0.36	276.9%	0.10	0.93	0.83	830.0%
Total Highways Roads and Transport Services	3.29	7.38	4.09	124.3%	2.81	8.59	5.78	205.7%
Homelessness	1.28	0.88	-0.40	-31.3%	1.47	1.14	-0.33	-22.4%
Discretionary Rent Rebates & Rent Allowances	0.39	0.73	0.34	87.2%	0.30	0.70	0.40	133.3%
Housing Benefit Administration	6.19	8.43	2.24	36.2%	6.41	10.24	3.83	59.8%
Supporting People	0.00	0.00	0.00	0.0%	0.31	-0.03	-0.34	0.0%
Other Housing	2.84	6.30	3.46	121.8%	2.80	3.91	1.11	39.6%
Total Housing	10.70	16.34	5.64	52.7%	11.29	15.96	4.67	41.4%
Unallocated Contingencies / Other Services	0.46	9.15	8.69	1889.1%	1.10	8.16	7.06	641.8%
Total Expenditure	134.49	143.03	8.54	6.3%	143.28	139.13	-4.15	-2.9%
Budget Requirement	129.03	144.99	15.96	12.4%	127.56	143.36	15.80	12.4%

**Medium Term Financial Strategy  
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Rossendale's Spending Compared to the Average District 2003/04 and 2004/05	2003/04				2004/05			
	All Districts	Rossendale	Difference		All Districts	Rossendale	Difference	
	£/head	£/head	£/head	%	£/head	£/head	£/head	%
Corporate & Democratic Core	19.50	12.48	-7.02	-36.0%	19.99	14.29	-5.70	-28.5%
Unapportionable Central Overheads	3.66	4.26	0.60	16.4%	3.59	4.00	0.41	11.4%
CTB Administration	3.74	3.61	-0.13	-3.5%	3.96	4.38	0.42	10.6%
Other Local Tax Collection Costs	6.08	5.08	-1.00	-16.4%	6.19	5.46	-0.73	-11.8%
Emergency Planning	0.20	0.00	-0.20	-100.0%	0.22	0.05	-0.17	-77.3%
Other Central Services to the Public	1.80	3.18	1.38	76.7%	1.89	3.20	1.31	69.3%
Total Central Services	34.98	28.61	-6.37	-18.2%	35.84	31.38	-4.46	-12.4%
Culture & Heritage	5.53	2.54	-2.99	-54.1%	5.77	2.36	-3.41	-59.1%
Sport & Recreation	10.72	11.25	0.53	4.9%	11.10	9.60	-1.50	-13.5%
Parks & Open Spaces	8.46	9.77	1.31	15.5%	8.80	14.70	5.90	67.0%
Tourism	2.04	1.28	-0.76	-37.3%	2.07	0.82	-1.25	-60.4%
Cemeteries & Crematoria	0.38	3.00	2.62	689.5%	0.32	-0.96	-1.28	-400.0%
Licensing	0.37	0.17	-0.20	-54.1%	0.60	0.44	-0.16	-26.7%
Community Safety	2.22	0.79	-1.43	-64.4%	2.71	0.78	-1.93	-71.2%
Consumer Protection	0.05	0.00	-0.05	-100.0%	0.05	0.00	-0.05	-100.0%
Street Cleansing & Litter	7.11	7.63	0.52	7.3%	7.81	7.40	-0.41	-5.2%
Waste Collection	16.00	22.32	6.32	39.5%	17.63	18.10	0.47	2.7%
Waste Disposal	0.49	0.00	-0.49	-100.0%	0.37	0.00	-0.37	-100.0%
Planning	10.85	7.70	-3.15	-29.0%	11.40	7.90	-3.50	-30.7%
Economic & Community Development	3.82	3.84	0.02	0.5%	3.78	3.61	-0.17	-4.5%



**Medium Term Financial Strategy  
2006/07 – 2008/09**

Rossendale's Spending Compared to the Average District 2003/04 and 2004/05	2003/04				2004/05			
	All Districts	Rossendale	Difference	All Districts	All Districts	Rossendale	Rossendale	Difference
	£/head	£/head	£/head	%	£/head	£/head	£/head	%
Environmental & Public Health Services	11.03	10.21	-0.82	-7.4%	11.33	9.27	-2.06	-18.2%
Other Services	1.67	1.03	-0.64	-38.3%	1.70	1.02	-0.68	-40.0%
Total Cultural, Environmental and Planning Services	80.74	81.53	0.79	1.0%	85.44	75.04	-10.40	-12.2%
Transport Planning Policy & Strategy	0.27	0.00	-0.27	-100.0%	0.25	0.00	-0.25	-100.0%
Roads & Bridges - Construction, Structural & Routine Maintenance	1.90	2.56	0.66	34.7%	1.92	3.14	1.22	63.5%
Other Traffic Management & Road Safety	0.14	0.00	-0.14	-100.0%	0.15	0.00	-0.15	-100.0%
Parking	-5.37	-0.11	5.26	-98.0%	-6.10	-0.06	6.04	-99.0%
Public Transport - Concessionary Fares	3.53	4.44	0.91	25.8%	3.43	4.58	1.15	33.5%
Other Public Transport	0.45	0.49	0.04	8.9%	0.38	0.93	0.55	144.7%
Total Highways Roads and Transport Services	0.92	7.38	6.46	702.2%	0.03	8.59	8.56	28533.3%
Homelessness	2.45	0.88	-1.57	-64.1%	2.79	1.14	-1.65	-59.1%
Discretionary Rent Rebates & Rent Allowances	0.46	0.73	0.27	58.7%	0.33	0.70	0.37	112.1%
Housing Benefit Administration	6.87	8.43	1.56	22.7%	7.08	10.24	3.16	44.6%

Rossendale's Spending Compared to the Average District 2003/04 and 2004/05	2003/04				2004/05			
	All Districts	Rossendale	Difference	All Districts	All Districts	Rossendale	Rossendale	Difference
	£/head	£/head	£/head	%	£/head	£/head	£/head	%
Supporting People	0.00	0.00	0.00	0.0%	0.29	-0.03	-0.32	0.0%
Other Housing	5.19	6.30	1.11	21.4%	5.33	3.91	-1.42	-26.6%
Total Housing	14.97	16.34	1.37	9.2%	15.82	15.96	0.14	0.9%
Unallocated Contingencies / Other Services	1.63	9.15	7.52	461.3%	1.09	8.16	7.07	648.6%
Total Expenditure	133.24	143.03	9.79	7.3%	138.22	139.13	0.91	0.7%
Budget Requirement	125.67	144.99	19.32	15.4%	123.47	143.36	19.89	16.1%

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

Ashfield	Nottinghamshire	Kettering	Northamptonshire
Cannock Chase	Leicestershire	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		

	2006/07 £	2007/08 £	2008/09 £
Initial Budget Requirement	9,808,930	10,087,050	10,558,470
Inflation			
Pay	221,760	228,300	238,610
Pensions	106,440	114,460	102,270
Running Costs	54,410	63,730	65,990
Income	-72,040	-73,810	-75,620
Increments	66,420	69,740	73,230
Demographic Growth			
Revenue Effects of the Capital Programme			
Running Costs - General	10,000	15,000	15,000
Commitment to Whitworth Civic Hall	35,530	-21,000	340
New Borrowing	25,500	100,000	100,000
Full Year Effect of Previous Years' Growth and Savings			
Growth	-185,960		
Savings	-47,950		
Technical and Volume Changes			
LSVT	151,850		
Bus Shelters	15,000		
CCTV	25,000		
Waste Collection	150,000		
Buy Out of Refuse Collection Leases	-80,000		
Licensing Staffing	20,000		

**Medium Term Financial Strategy  
2006/07 – 2008/09**

	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Volume Change in Planning Income	30,000		
Operations Manager - SS&L	65,000		
Elections	52,000		
Lancashire Portal	10,000		
IT Contract Variations	20,000		
E Lancs e-Partnership	25,000		
Return of all Highways functions of LCC	-96,840		
Interest and Financing Costs	-25,000	-25,000	-25,000
Effects fo Legislative or Statutory Changes			
Changes to the Concessionary Fares Scheme	0	0	0
Benefits Subsidy Rule Changes	-200,000	0	0
Civil Contingencies Act	17,000	0	0
Growth			
Land & Property Information & Corporate GIS			
Savings			
Revenues & Benefits Partnership			
Change in Use of Reserves	-115,000		

**Medium Term Financial Strategy  
2006/07 – 2008/09**

<b>Final Budget Requirement</b>	<b>10,087,050</b>	<b>10,558,470</b>	<b>11,053,290</b>
Financed By			
Total Formula Grant (RSG & NNDR)	5,174,990	5,299,990	5,424,990
Council Tax Collection Fund Surplus			
Council Tax (assuming 3% increase)	4,929,650	5,106,480	5,289,660
<b>Total Resources</b>	<b>10,104,640</b>	<b>10,406,470</b>	<b>10,714,650</b>
Headroom (+) / Savings Requirement (-) Cumulative	17,590	-152,000	-338,640
Adjust for Effect of Previous Year		-17,590	169,590
<b>In Year Headroom (+) / Savings Requirement (-)</b>	<b>17,590</b>	<b>-169,590</b>	<b>-169,050</b>
	£	£	£
Council Tax Band D	234.40	241.43	248.67
Taxbase Band D Equivalents	21,031	21,151	21,272