Medium Term Financial Strategy

2007/08 – 2009/10 – Update – February 2007

CONTENTS

INTRODUCTION

This document is the second update of Rossendale Borough Council's medium term financial strategy and covers the period up to 2009/10

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 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

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.

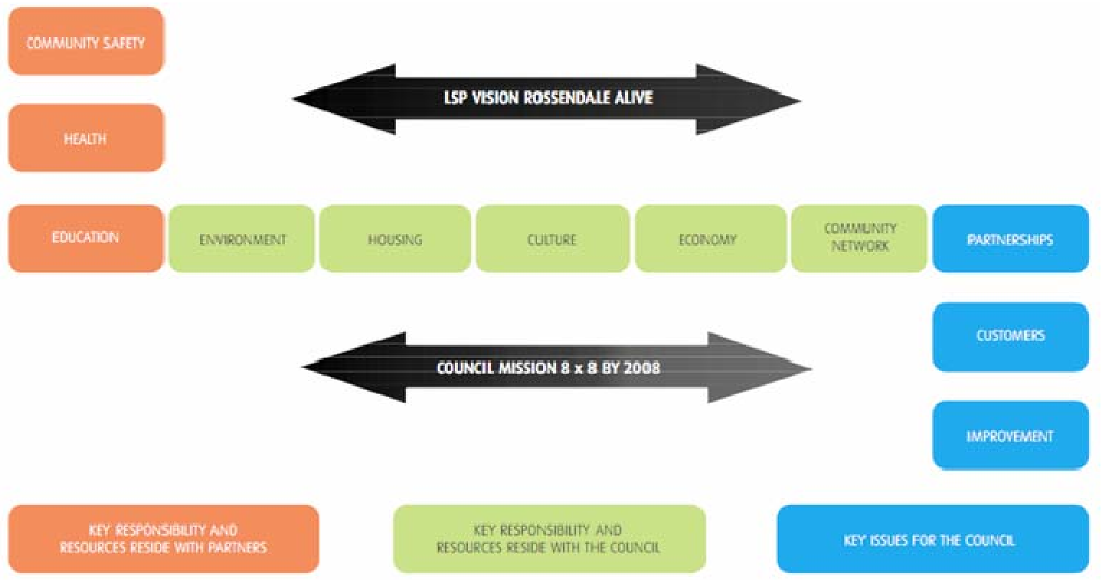
As a community leader the Borough Council's role is to ensure all the key partners within the Borough are moving in the same direction towards achievement of this vision. However we are also directly responsible for a number of key services the development of which will make this vision a reality and 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 performing at a level above the national average.

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

These objectives relate together are related together as shown in the diagram below:



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 these 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:

- Delivering the quality of service customers have a right to expect *(Customers, Improvement)*
- Delivering regeneration across the Borough *(Economy, Housing)*
- Keeping our Borough clean and green *(Environment)*
- Promoting Rossendale as a place to live and visit *(Economy)*
- Improving health and well being across the Borough *(Health, Housing)*

Enabled by:

- Strong financial management and the delivery of value for money services *(Improvement)*
- Equipping members to act 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)*

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:

- The continued development of a more localised and responsive service dealing with the Streetscene to meet the customer service standards and the clean and green agenda.
- Creating a new economic regeneration delivery team team.
- Promotion of the health agenda, amongst other things, education surrounding a “Smoke Free Rossendale”.

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 for 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 were priorities previously, such as the delivery of the Revenues and Benefits Partnership, will 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 Local Government White Paper, which 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 do address these national and regional agendas on a practical basis. The Council will need to continue the development of 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

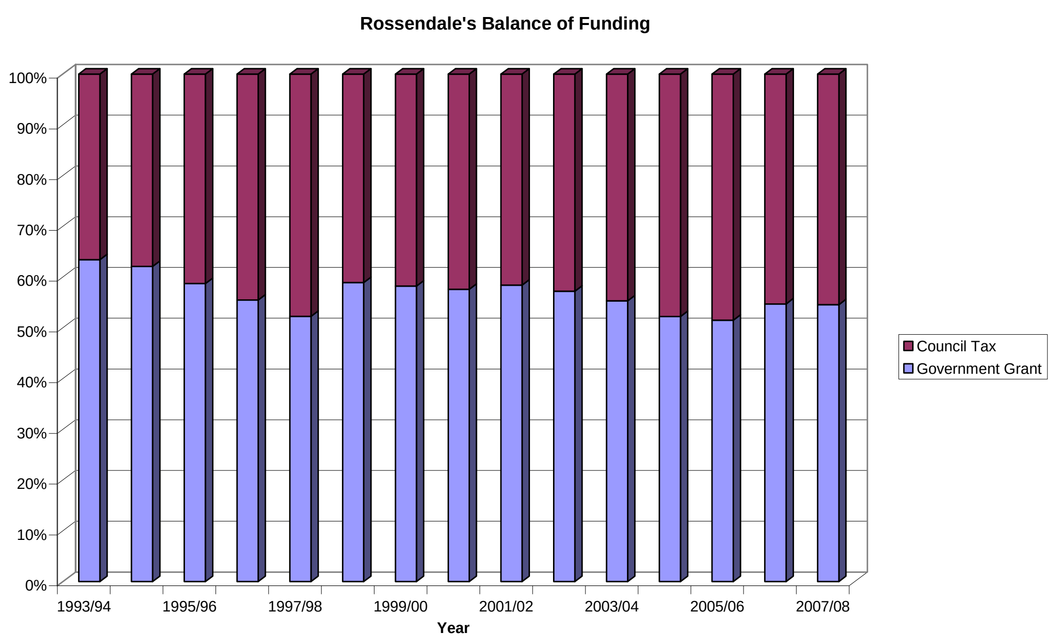
This section briefly gives details of the Council's current and historic levels of resources and the way in which they have been utilised.

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.

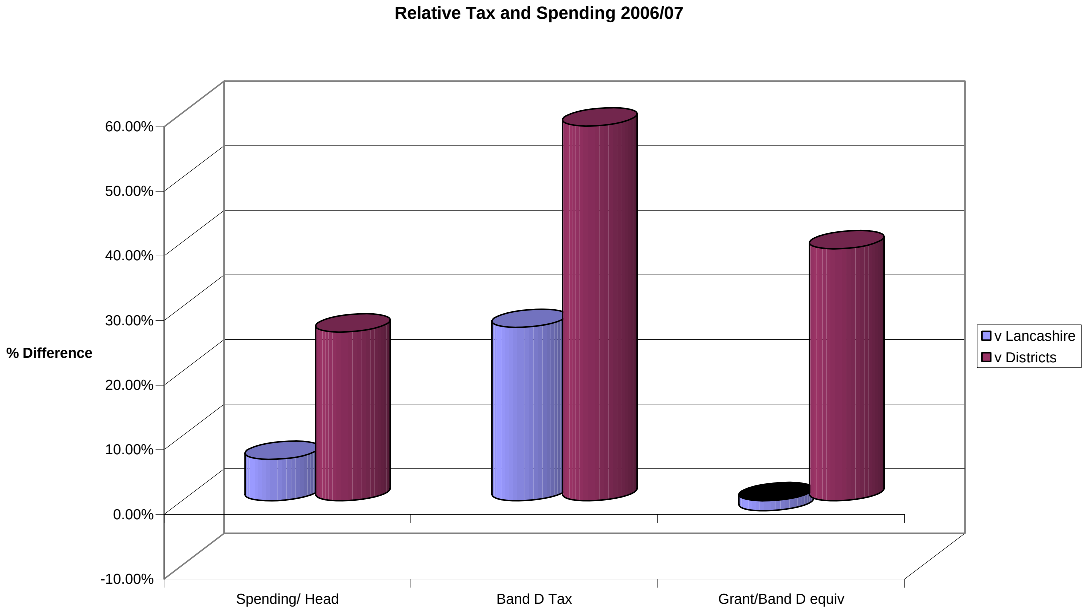
It is, perhaps, helpful to first examine the balance between central and local funding in Rossendale, as this balance is at the heart of much debate over the system of local government finance in England. This is illustrated in the graph below:



(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 45.5% for 2007/08. The latter figure is not untypical fro 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 2006/07)

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:

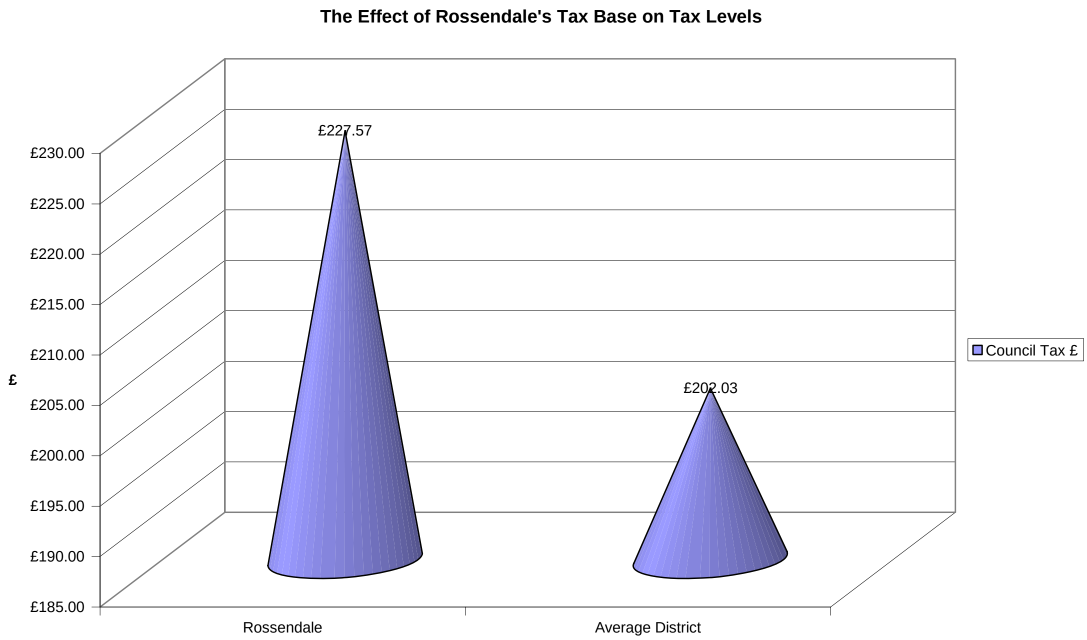
Cash Differences Between Rossendale and Regional and National Averages

Compared to	Spending £000	Council Tax at Band D £	Grant £000
Lancashire	+651	+49.20	-94
All English Districts	+2,237	+85.37	+1,659

(Source CIPFA Finance and General Statistics 2006/07)

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 2005/06 over 50% of properties were in Band A. In the average district this was 25%. The graph below illustrates the effect this has on the level of Council Tax in the Borough, through showing what the Council Tax in Rossendale would have been in 2005/06 if the taxbase had mirrored the average.

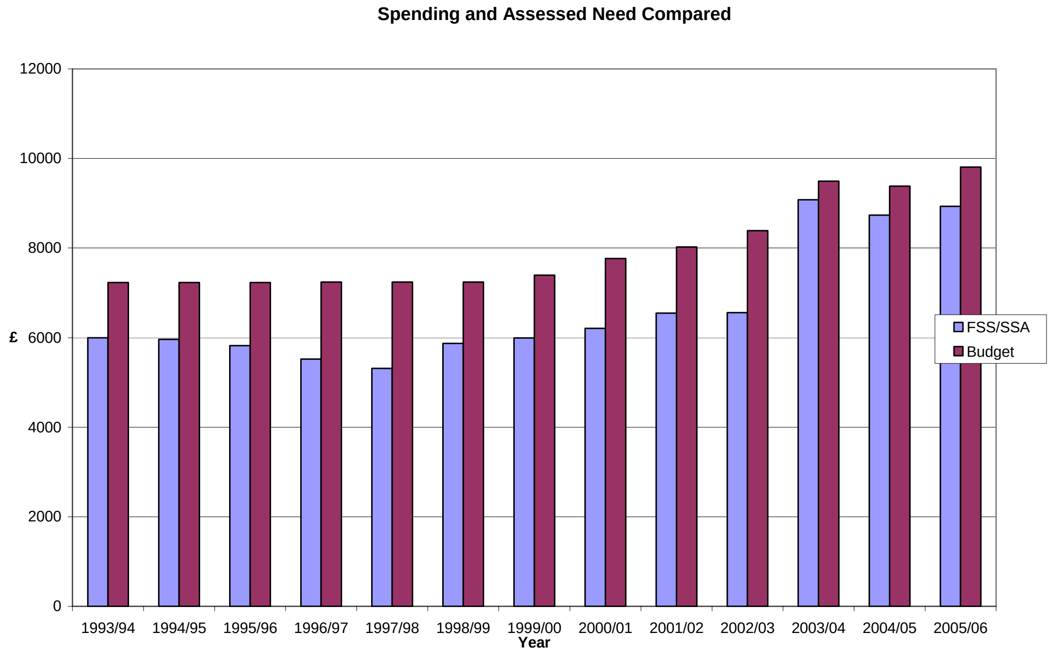


(Source CIPFA Finance and General Statistics, DCLG Local Government Finance Website)

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).



(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 2006/07 data.

	Rossendale v Average District		
Service Area	£/head	%	£000
Culture and Heritage *This heading includes facilities such as museums, public halls and arts centres.*	-4.04	-69.7%	-266
Sport and Recreation *This heading includes both indoor and outdoor leisure facilities*	-1.60	-13.5%	-105
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.*	+8.09	+83.8%	+533
Street Cleansing and Litter *This heading covers both manual and automated street cleaning operations, emptying of street litter bins etc.*	+3.59	+40.6%	+237
Planning *This heading includes Development Control, Building Control and Forward Planning.*	-3.02	-21.8%	-199
Parking *This comprises the costs of off street parking, where the average district generates a net income.*	+8.66	+118.0%	+571
Homelessness *This heading includes the costs both of emergency and temporary accommodation as well as the costs of administering the service.*	-1.55	-47.7%	-102

(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 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.

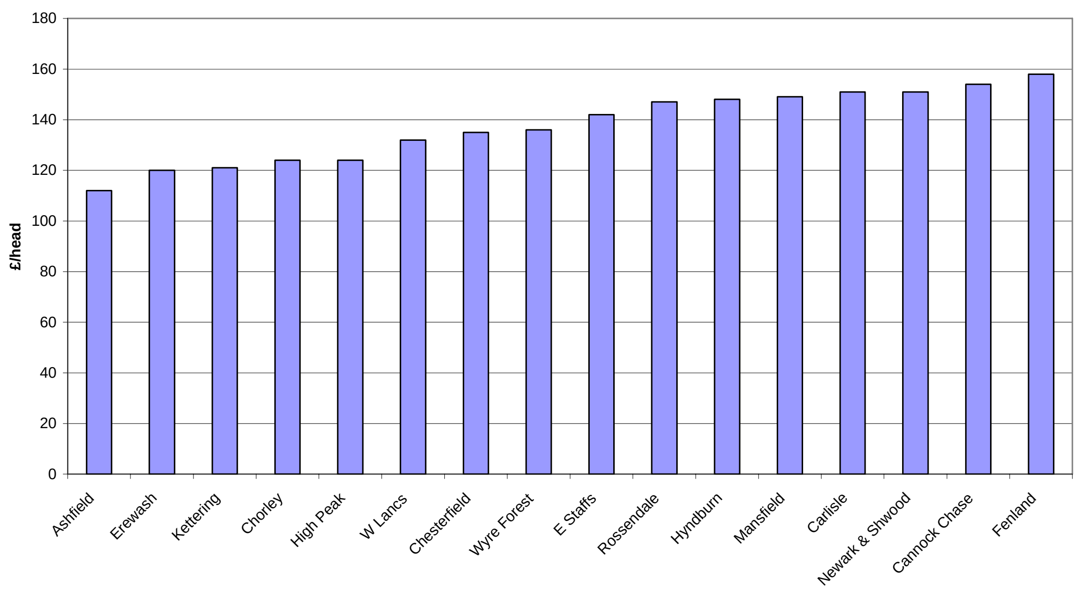
2. Similarly in the case of parking the Council has, following a detailed review by Overview and Scrutiny made a conscious decision not to introduce off street parking charges. Again this provides a legitimate policy reason for difference.

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 the Council in Lancashire with the best performance on BVPI 199, the street dirtiness indicator, spends £5.80 per head on the service while Rossendale spends £12.88. 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 BVPI 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 7 out of 16 and is slightly above the median. This is illustrated in the graph below.

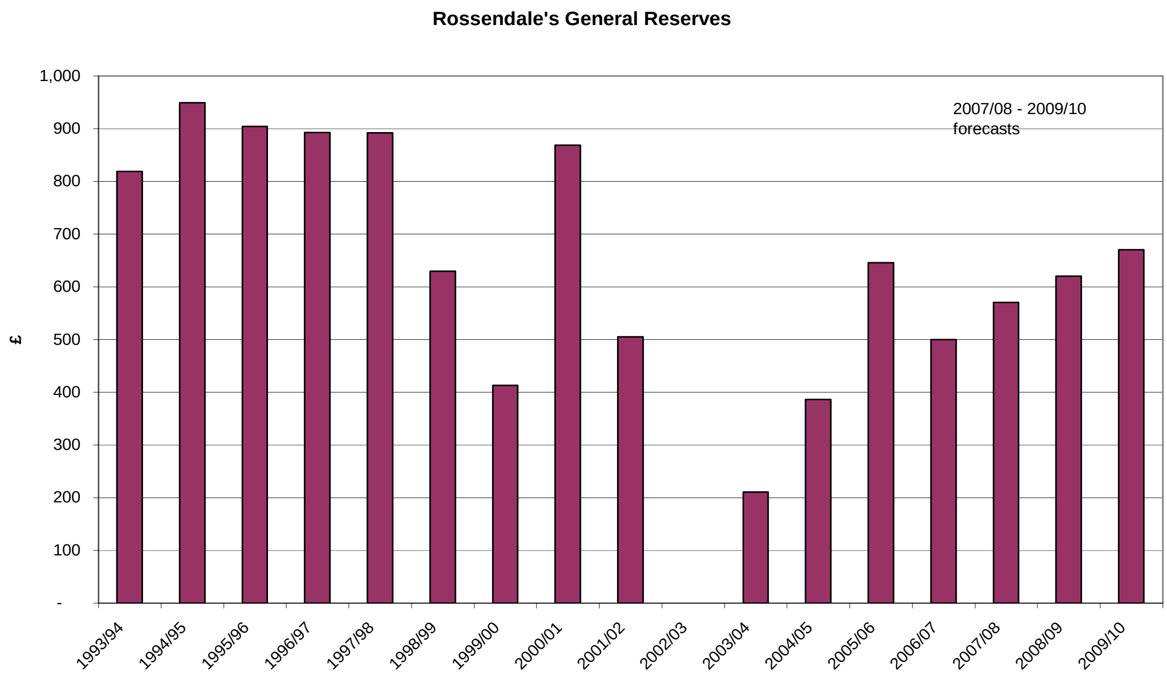
Nearest Neighbours Comparative Service Expenditure Per Head 2005/06



(Source CIPFA Finance and General Statistics 2005/06)

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) of £2.75m, which under the Capital Finance Regulations still has to be repaid. The Council will need to consider whether to take opportunities to accelerate this repayment as they arise so as to reduce revenue costs.

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. 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 recent years. Policies set out elsewhere in this strategy follow best practice in explicitly linking reserves to risks.

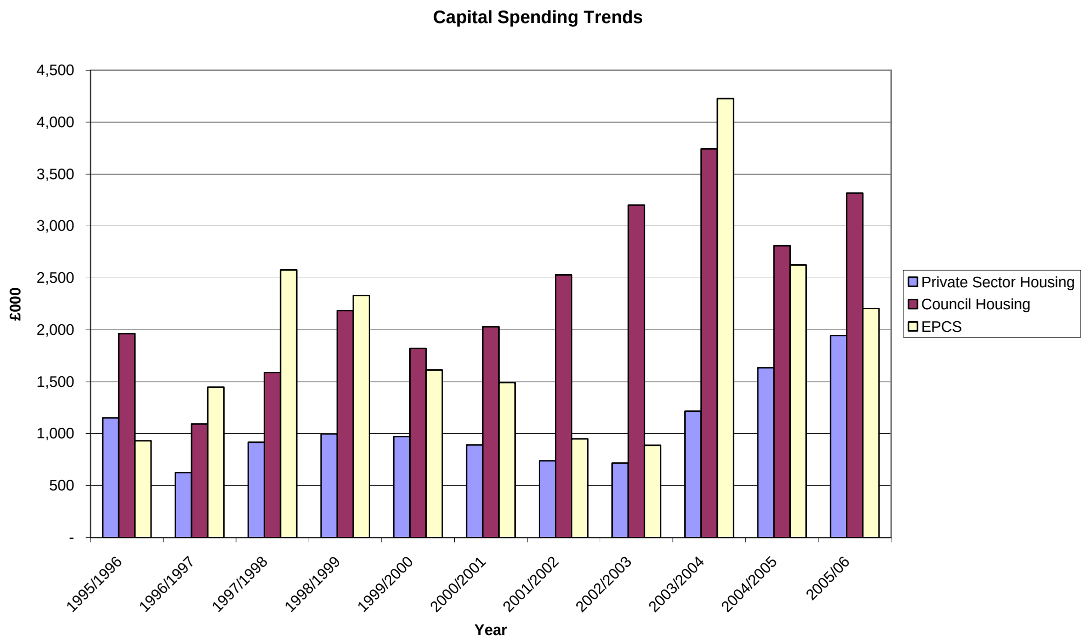
Revenue Spending and Resources – Questions for Councillors

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

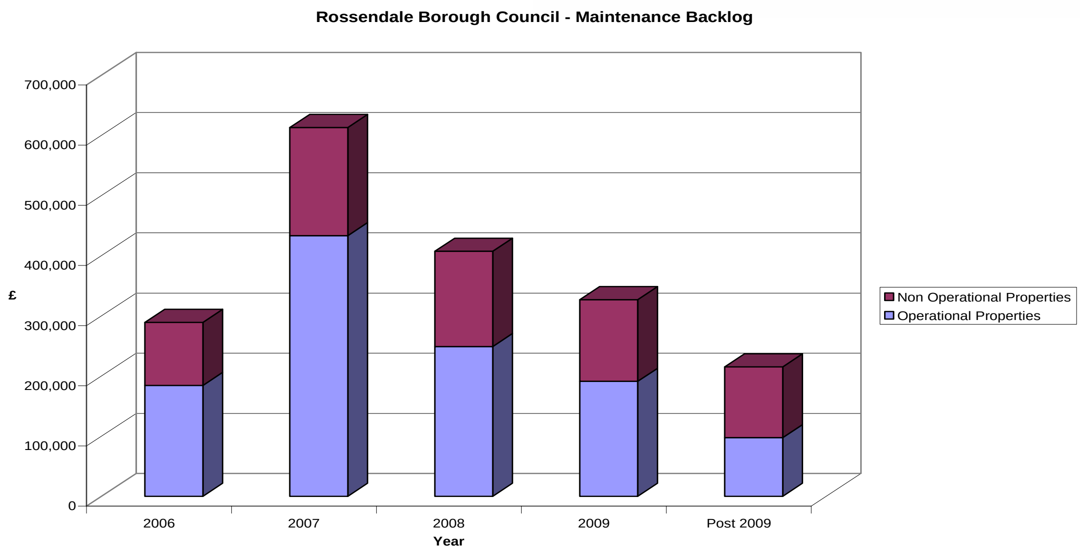
While revenue spending is the most publicly visible element of the Council's finances because it is directly paid for through the Council tax it is important not to lose sight of the Capital Programme and the impact which it can have both on the overall financial position, and the nature and quality 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 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 summary in detail in the Asset Management Plan, but are summarised in the chart below.

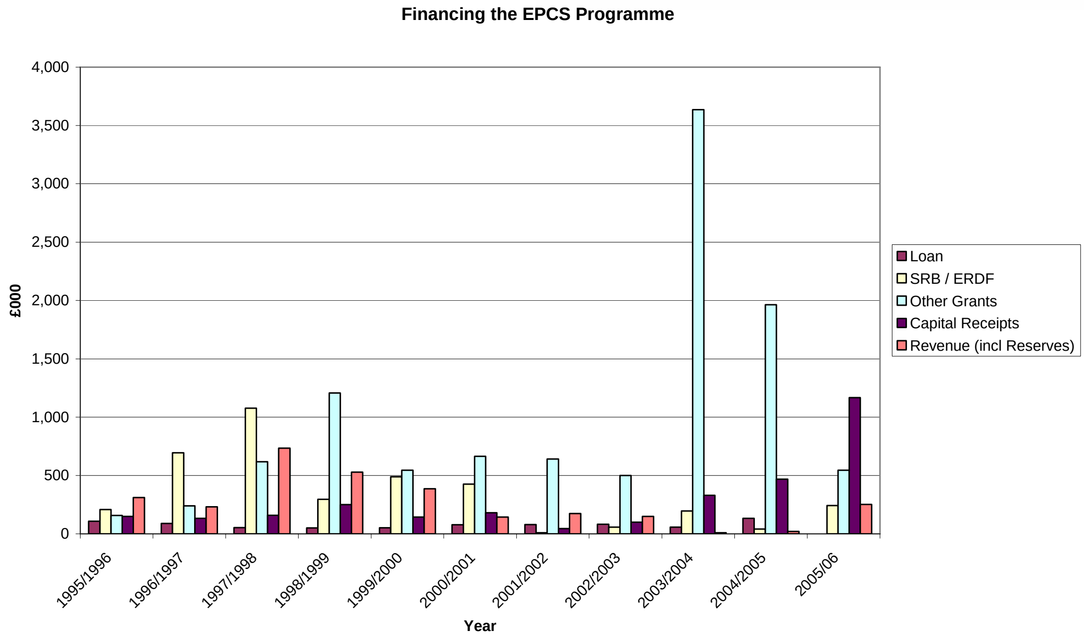


(Source Building Condition Surveys)

However, this does not represent the whole picture in relation to the Council's built assets as there is considerable pnt 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.

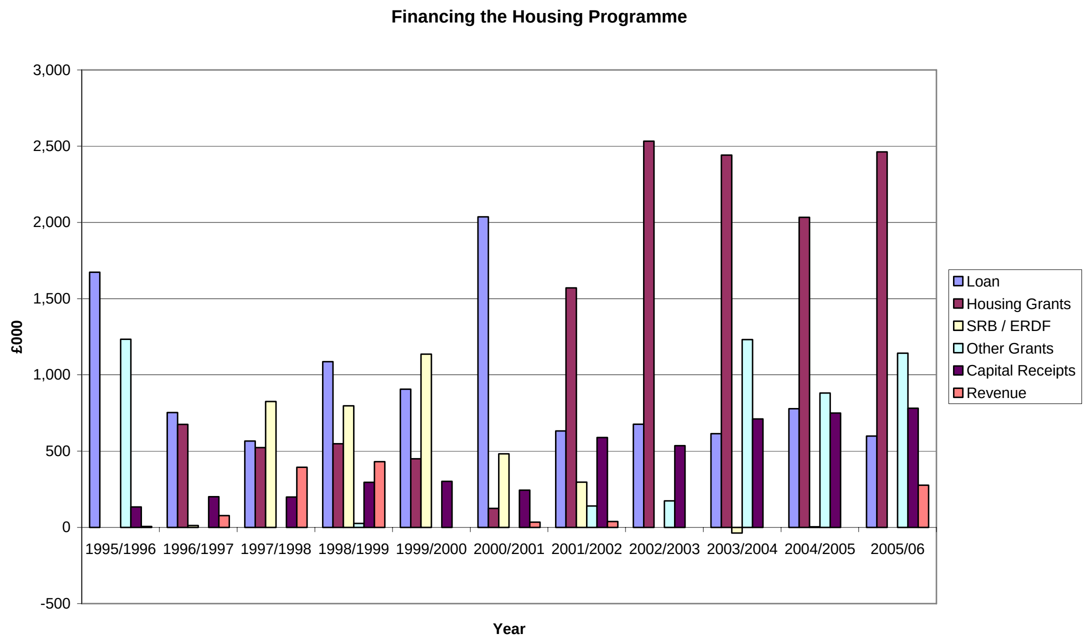
Thus there is likely to be a need to focus investment in coming years more internally than has been the case previously. This can be seen in the chart below which illustrates how the EPCS programme has been financed historically.



(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 a result of the pressure on the Council's revenue budget.

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



(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 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 will very rapidly move up the agenda for the Council.

Such a policy was a 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.

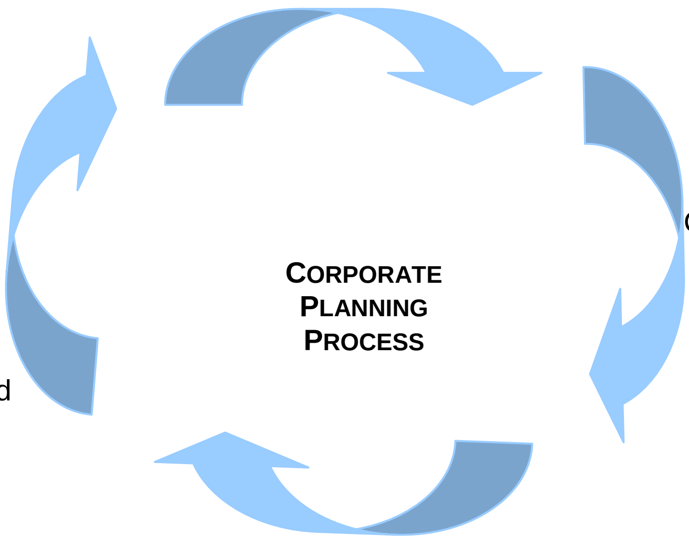
These are important because they provide a framework of rules within which managers can plan and manage resources. They also allow for the policy debates of elected members to be informed by the views of the wider community obtained through consultation.

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 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.

Medium Term Financial Strategy 2007/08 – 2009/10

Rossendale alive
BOROUGH COUNCIL

MAY

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**

JUNE

JULY

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

SEPT

OCT

Draft Policy Budget and Headline Unit Tasks Produced

Initial Consideration by Cabinet

NOV

Revise draft Policy Budget and overall Business Plan

Receipt of Settlement Figures

DEC

Executive Launches Proposed Budget for Consultation

JAN

Consultation

Budget set at February Council

IMPLEMENTATION

FEB

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

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. 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.

Summary Revenue Expenditure Forecast - Continuation of Existing Commitments

		2008/09 £	2009/10 £	2010/11 £
Initial Budget Requirement		11,199	11,738	12,275
Inflation				
	Pay & oncosts	207	214	220
	Running Costs	173	167	179
	Income	-58	-59	-61
	% increase	*2.89%*	*2.74%*	*2.76%*
Demographic Growth		0	0	0
Revenue Effects of the Capital Programme:				
Running Costs - General		15	15	15
Full Year Effect of Previous Years':				
Growth		0	0	0
Savings		0	0	0
Technical and Volume Changes		200	200	200
Change in Use of Reserves		0	0	0
Final Budget Requirement		**11,738**	**12,275**	**12,828**
	% increase	***4.8%***	***4.57%***	***4.51%***

- **Pay –** Pay Awards going forward will be around 3%

- **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

- **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 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%.

.

Key Assumption 3

The increase in expenditure arising from the changes to the statutory concessionary fares scheme from April 2008 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 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 was affected by this mechanism for the first time in 2005/06 and continues to be for 2006/07 and 2007/08, 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 resources nationally to meet the costs of further changes to the concessionary fares scheme from April 2008. At this stage it is not clear what effect this particular change might have on the Council.

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. 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.

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.

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

Key Assumption 4
Total Formula Grant will increase in line with the medium term settlement and them at a rate of £125k a year.

Key Assumption 5

Additional resources for concessionary fares beyond April 2008 within Total Formula Grant equate to the required expenditure increase.

Key Assumption 6

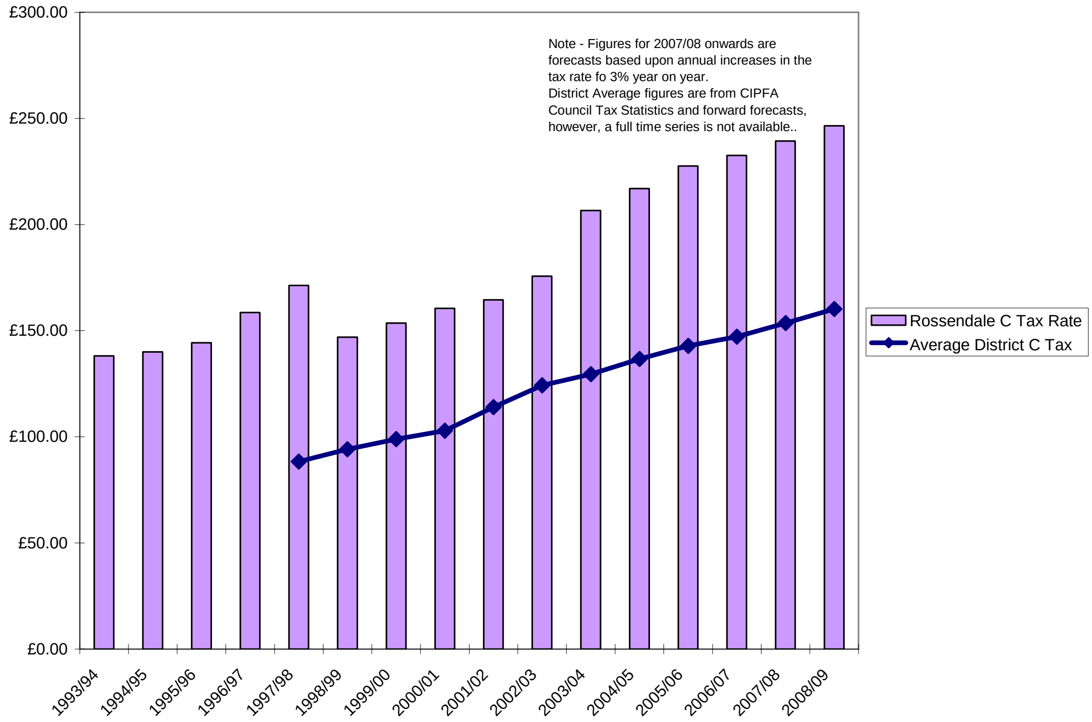
Any proceeds from the Local Authority Business Growth Incentive scheme will be earmarked for future economic regeneration projects and will not affect underlying expenditure.

Key Assumption 7

Any proceeds from the Local Public Service Agreement Reward Grant will be earmarked 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 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 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.

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:

.

CCTV Reserve – This is held for the maintenance of the CCTV system in the Borough. This reserve will be exhausted at the end of 2006/07 and these costs will 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.

Legal Liabilities Reserve – This reserve exists to allow the Council to mitigate the risk of legal costs in relation to actions which it has to take in order to carry out its duties in relation to the enforcement of planning and environmental health legislation.

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.

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:

		Actual Balance at 31st Mar 05	Actual Balance at 31st Mar 06	Forecast Balance at 31st Mar 07	Forecast Balance at 31st Mar 08	Forecast Balance at 31st Mar 09
General Reserves	Notes	386	646	500	550	600
Earmarked Reserves						
Major Capital Projects	1	258	-	-	-	-
CCTV	1	17	17	-	-	-
Change Management	2	323	725	30	600	550
Legal Liability		-	100	140	140	140
Single Status	2	-	-	-	400	150
Capita Contract Performance		-		-	45	20
Economic Regeneration		-	-	*tbc*	*tbc*	*tbc*
Total Earmarked		598	842	170	1,185	860
Total Reserves		984	1,488	670	1,735	1,460
Transfer from HRA	2			1,095	-	

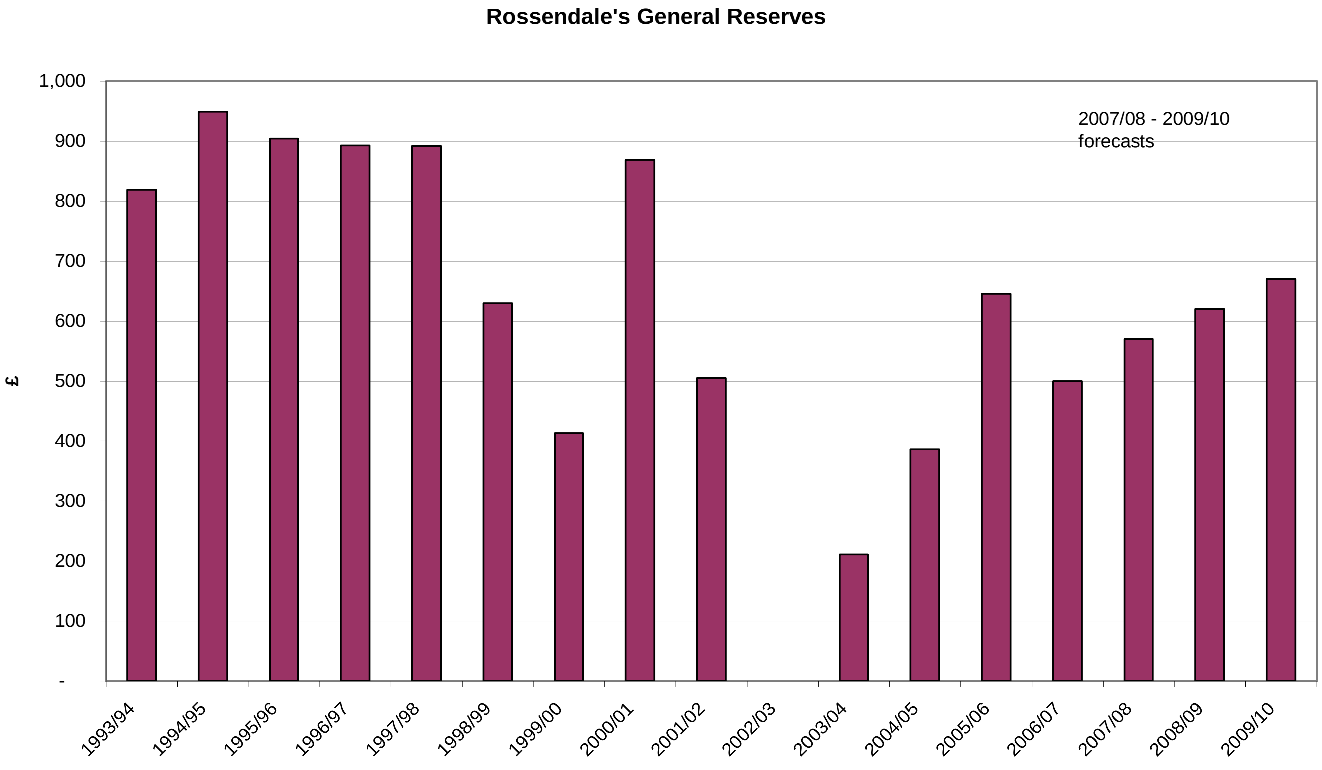
1 - Theses reserves have either now been closed or fully utilised
2 - This figures demonstratethe use of £1.1M HRA balances available for general use as from 1st April 2000.
- use is an illustration only and assumes an annual transfer of £50k pa to General Reserves.

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, and the forecast above allows reserves to commence building to this maximum target without contributions financed from the Council Tax. This provides a cushion against unexpected events of £0.12m. This is required to deal with unexpected budget variances, legal claims, pay awards and so on. Such an unforeseen event materialised in 2006/07 with a legal claim estimated at £150k and reflected in the above table. Taking pay awards as a further example a cushion of this sort would allow the Council to absorb a pay award 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 2007/08 Budget Requirement
Minimum Level of General Balances	500	4.5%
Level of Balances Reflected in 2007/08 Budget	520	4.6%
Maximum Level of General Balances	750	6.7%

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 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

The balances 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 transferred to Change Management Reserve to provide support for the Council's improvement agenda and to increase the General reserves by £50,000 per annum

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:

	2008/09 £000	2009/10 £000	2010/11 £000
Forecast Budget Requirement	11,738	12,044	12,376
Headroom for Growth	0	0	0
Requirement for Savings	(231)	(223)	(233)
Forecast Resources	11,507	11,821	12,143

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 £0.75m of cost reductions over 2008/09 and 2009/10 be agreed, with options to achieve this being identified for consideration by members by September 2007. 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:

	2008/09	2009/10	Total
Street Scene and Liveability Service	250	250	500
Other Services	125	125	250
Total	375	375	750

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.

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 options of up to £0.75m for the years 2008/09 and 2009/10 will be identified for consideration by September 2007. 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 – Negotiations on the pay awards for staff from 2007/08 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 3% 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.

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. 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.

	Forecast Spending			
	2006/07 £000	**2007/08 £000**	**2008/09 £000**	**2009/10 £000**
Service Area:				
Customer Services & e-Government	116	125	100	100
Street Scene & Liveability	902	795	839	589
Communities & Partnerships	1,196	15	15	135
Regeneration	324	30	30	30
Corporate Projects	1,415	735	650	550
Housing	2,671	3,591	3,406	3,406
Total	**6,624**	**5,291**	**5,040**	**4,810**

The capital programme last approved in March 2006 together with recommendations for 2007 begins to address a number of historical maintenance issues involving amongst other things Council buildings, car parks, playgrounds, cemeteries 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 Council anticipates cumulative unallocated resources of £1.0m at 31st Mar 2010.

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 backlogs already included in the programme (in total £1.2M over 5 years) and accommodation rationalisation.
- 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.

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.

Capital Resources

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

	Forecast Spending			
	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000
Internal Resources				
Capital Receipts b/f	115	-	-	-
Green Vale Homes (Right to Buy & Affordabe Housing	1,670	1,676	1,438	1,309
Green Vale Homes (VAT share)	140	150	160	170
Revenue contributions		40		
Insurance Claim	992			
Surplus land & property disposals	1,341	1,135	1,100	100
Total	**4,258**	**3,001**	**2,698**	**1,579**
External Resources				
NWDA/ERDF	1,813	2,000	2,000	2,000
Office of Deputy Prime Minister	963	898	898	898
Miscellaneous	60	153	100	100
Commercial Lenders for decent homes	-	300	300	300
Total	**2,836**	**3,351**	**3,298**	**3,298**
Available Resources	**7,094**	**6,352**	**5,996**	**4,877**
Cumulative	**24,319**			

The above table reflects changed means by which the Government will support District Council capital expenditure from 2007/08 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 17

Capital receipts through retained right to buy following stock transfer will continue at the current level until 2009/10

Key Assumption 18

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

Key Assumption 19

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 20

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. However, a review of the Council's land and property holdings as a result of the work on the Asset Management Plan will be reported to members before summer 2007 identifying assets which do not contribute to achievement of the corporate priorities and making recommendations as to action which should be taken.

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	24,319
Less Forecast Spending	21,765
Available Resources	**2,554**
Less: Resources Set Aside For Civic Building ("Accommodation Strategy")	1,576
Resources Available for Other Investment	**978**

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, 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 require the Council to 'have regard to' the Prudential Code produced by CIPFA 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). 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 2007/08 in respect of the following aspects of the treasury management function is based upon 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).

Key Assumption 21
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.

TREASURY LIMITS FOR 2007/08 TO 2009/10

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. This amount is called the "Affordable Borrowing Limit". In England and Wales this is 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 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	2005/06	2006/07	2007/08	2008/09	2009/10
EXTRACT FROM BUDGET AND RENT SETTING REPORT	£'000	£'000	£'000	£'000	£'000
	actual	probable outturn	estimate	estimate	estimate
Capital Expenditure					
Non - HRA	£7,469	£6,624	£5,291	£5,040	£4,810
TOTAL	£7,469	£6,624	£5,291	£5,040	£4,810
Ratio of financing costs to net revenue stream					
Non - HRA	2%	1%	1%	1%	1%
Net borrowing requirement					
brought forward 1 April	£22,856	£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	£2,867	£2,752	£2,642	£2,536	£2,435
TOTAL	£2,867	£2,752	£2,642	£2,536	£2,435
Annual change in Cap. Financing Requirement					
Non – HRA	£213	£115	£110	£106	£101
TOTAL	£213	£115	£110	£106	£101
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	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**
TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	actual	**probable outturn**	**estimate**	**estimate**	**estimate**
Authorised Limit for external debt -					
borrowing	£38,700	£4,000	£4,000	£4,000	£4,000
other long term liabilities	£0	£0	£0	£0	£0
TOTAL	£38,700	£4,000	£4,000	£4,000	£4,000
Operational Boundary for external debt -					
borrowing	£36,500	£2,500	£2,500	£2,500	£2,500
other long term liabilities	£0	£0	£0	£0	£0
TOTAL	£36,500	£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)	£2,000	£500	£500	£500	£500

Maturity structure of fixed rate borrowing during 2007/08	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 2007 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			**3.9**	**Z**

BORROWING REQUIREMENT

	2005/06	2006/07	2007/08	2008/09	2009/10
	£'000 actual	**£'000 probable**	**£'000 estimate**	**£'000 estimate**	**£'000 estimate**
New borrowing	0	0	0	0	0
Alternative financing arrangements	0	0	0	0	0
Replacement borrowing	10,000	0	0	0	0
TOTAL	10,000	0	0	0	0

PROSPECTS FOR INTEREST RATES

The Council has appointed Sector Treasury Services as treasury adviser to the and part of their service is to assist the Council to formulate a view on interest rates. Appendix 3 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 – January 2007

	Q/E1 2007	Q/E2 2007	Q/E3 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
Bank rate	5.50%	5.50%	5.25%	5.00%	5.00%	5.00%	4.75%	4.75%	4.50%	4.50%	4.50%	4.50%	4.75%	4.75%	4.75%
5yr PWLB rate	5.50%	5.25%	5.00%	4.75%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
10yr PWLB rate	5.00%	5.00%	4.75%	4.75%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
25yr PWLB rate	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
50yr PWLB rate	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%

Key Assumption 22

Based on Sector's current interest rate view it is assumed that Bank Rate will: -

- *peak at 5.50% in quarter 1 2007*
- *fall to 5.25% in Q3 2007 and then to 5.00% in Q4 2007*
- *fall to 4.75% in Q3 2008 and then to 4.50% in Q1 2009 before rising back to 4.75% in Q1 2010.*

ECONOMIC BACKGROUND

International

- The US, UK and EU economies have all been on the upswing of the economic cycle in 2005 and 2006 and so have been raising interest rates in order to cool their economies and to counter inflationary pressures stimulated by high oil, gas and electricity prices which could feed through into increases in wage inflation, producer prices etc.
- The US is ahead of the UK and EU in the business cycle and it looks as if the Fed. rate has probably already peaked at 5.25% whereas there is an expectation in the financial markets of further increases in the EU and UK.
- The major feature of the US economy is a still an increasing downturn in the housing market which is likely to drag consumer spending, and so the wider economy, down with it (e.g. house building, employment etc.). 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.

- The Federal Reserve may be reluctant and tardy to respond to the aforementioned downturn in the economy if inflationary pressures remain stubbornly high. This could exacerbate the downturn both in the US and the world economies.
- EU growth picked up strongly in the first half of 2006 and is expected to remain healthy in the second half. Growth to slow moderately in 2007 due to weaker US and global demand.
- Despite sharply increased energy prices, deflationary pressures from falls in prices of manufactured goods from China and India have helped to keep headline inflation in the advanced economies to an average of around 3% and will fall as the energy effects go into reverse.

UK

- GDP: the UK is on the upswing of the economic cycle from a low point reached in June 2005. Robust growth is expected to continue for a little longer but a modest cooling is expected in 2007 (2006 2.7%, 2007 2.2%) and then to edge up to 2.5% in 2008.
- Recovery in consumer spending and retail sales has underpinned this upswing in GDP.
- The housing market has proved more robust than expected; house price inflation over 8% p.a.
- Higher than expected immigration from Eastern Europe has strengthened growth and dampened wage inflation.
- The MPC's decisions to raise Bank Rate in November 2006 and January 2007 were needed to bring CPI inflation down to the 2% target level two years ahead. The MPC has been concerned that short term price increases (CPI has been significantly above target since June 2006) could feed through into wage settlements in the current pay round and anchor inflation expectations at a higher level.
- Household income growth to recover in 2007 as inflation falls and pay rises. But extra income likely to go into a recovery of the savings rate, pension saving and servicing debt costs (as rates rise) rather than consumer expenditure.
- Public sector real increase in expenditure per annum to weaken to 2.5% over the next few years from 3% average over 2000-2005.
- The three increases in Bank Rate in August and November 2006 and then January 2007, are expected to dampen the housing market and increases in unsecured borrowing although one more increase in Bank Rate is forecast.
- World slowdown in growth in 2007 will dampen UK exports.
- OUTLOOK: Once inflation is back under control, Bank Rate will switch to a falling trend in the second half of 2007 to counter the above negative effects on the economy and growth.

Rossendalealive BOROUGH COUNCIL

BORROWING STRATEGY

Key Assumption 23
Based on Sector's forecast the assumptions about long term borrowing rates are as follows: -

- *The 50 year PWLB rate is expected to remain flat at 4.25%. As the Sector forecast is in 0.25% segments there is obviously scope for the rate to move around the central forecast by +/- 0.25% without affecting this overall forecast.*

- *The 25-30 year PWLB rate is expected to stay at 4.50% for the foreseeable future.*

- *The 10 year PWLB rate will fall from 5.00% to 4.75% in Q3 2007 and then fall again to 4.50% in Q1 2008 and remain at that rate for the foreseeable future.*

- *5 year PWLB rate will fall from 5.50% to 5.25% in Q2 2007 and continue falling until reaching 4.5% in Q1 2008 when it will remain at that rate for the foreseeable future*

This forecast indicates, therefore, that the borrowing strategy for 2007/08 should be set to take very long dated borrowing at any time in the financial year. 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 2007/08 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. Officers, in conjunction with the treasury advisers, will continually monitor both prevailing interest rates and 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 in 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 24
The Council's investment priorities are: -

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

Key Assumption 25
The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity

Key Assumption 26
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 Bank Rate to peak at 5.5% in Q1 2007 before falling to 5.25% in Q3 2007, to 5.00% in Q4 2007, to 4.75% in Q3 2008 and then to trough at 4.50% in Q1 2009, remaining at that level before rising again to 4.75% in Q1 2010. The Council 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.

For its cash flow generated balances, the Council will seek to utilise its business reserve accounts and short-dated deposits (over night to three months) in order to benefit from the compounding of interest.

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 likely 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

Rossendale's Spending for 2006/07 Compared to All Districts and Nearest Neighbours

	Compared to All Districts				Compared to Nearest Neighbours			
	Average	Rossendale	Difference		Average	Rossendale	Difference	
	£/head	£/head	£/head	%	£/head	£/head	£/head	%
Corporate & Democratic Core	21.40	31.81	10.41	48.6%	22.68	31.81	9.13	40.2%
Unapportionable Central Overheads	2.27	2.76	0.49	21.6%	1.47	2.76	1.29	87.6%
Local Tax Collection Costs incl CTB Admin	10.64	10.49	-0.15	-1.4%	12.47	10.49	-1.98	-15.9%
Emergency Planning	0.49	0.36	-0.13	-26.5%	0.27	0.36	0.09	33.8%
Other Central Services to the Public	2.77	5.20	2.43	87.7%	3.64	5.20	1.56	42.8%
Total Central Services	37.57	50.62	13.05	34.7%	40.53	50.62	10.09	24.9%
Culture & Heritage	5.80	1.76	-4.04	-69.7%	6.66	1.76	-4.90	-73.6%
Sport & Recreation	11.89	10.29	-1.60	-13.5%	14.33	10.29	-4.04	-28.2%
Parks & Open Spaces	9.65	17.74	8.09	83.8%	12.11	17.74	5.63	46.5%
Tourism	1.96	1.18	-0.78	-39.8%	1.52	1.18	-0.34	-22.3%
Cemeteries & Crematoria	0.31	-0.85	-1.16	-374.2%	0.53	-0.85	-1.38	-259.1%
Licensing	1.01	1.59	0.58	57.4%	0.92	1.59	0.67	72.9%
Community Safety	3.41	2.88	-0.53	-15.5%	3.91	2.88	-1.03	-26.4%
Consumer Protection	0.06	0.00	-0.06	0.0%	0.52	0.00	-0.52	0.0%
Street Cleansing & Litter	8.85	12.44	3.59	40.6%	8.61	12.44	3.83	44.4%
Waste Collection	20.70	21.73	1.03	5.0%	20.87	21.73	0.86	4.1%
Waste Disposal	0.29	0.00	-0.29	0.0%	0.19	0.00	-0.19	0.0%
Planning	13.85	10.83	-3.02	-21.8%	11.58	10.83	-0.75	-6.5%
Economic & Community Development	4.43	7.85	3.42	77.2%	5.32	7.85	2.53	47.6%
Environmental & Public Health Services	11.89	10.27	-1.62	-13.6%	11.96	10.27	-1.69	-14.2%
Other Services	1.73	0.77	-0.96	-55.5%	1.38	0.77	-0.61	-44.1%
Total Cultural, Environmental and Planning Services	95.83	98.48	2.65	2.8%	100.42	98.48	-1.94	-1.9%
Highways Functions	1.94	0.94	-1.00	0.0%	2.59	0.94	-1.65	-63.7%
Parking	-7.34	1.32	8.66	-118.0%	- 4.53	1.32	5.85	-129.1%
Public Transport incl Concessionary Fares	8.09	12.37	4.28	52.9%	10.17	12.37	2.20	21.6%

Total Highways Roads and Transport Services	2.69	14.63	11.94	443.9%	8.23	14.63	6.40	77.8%
Homelessness	3.25	1.70	-1.55	-47.7%	1.82	1.70	-0.12	-6.6%
Discretionary Rent Rebates & Rent Allowances	0.24	0.44	0.20	83.3%	0.32	0.44	0.12	37.3%
Housing Benefit Administration	7.57	10.71	3.14	41.5%	7.99	10.71	2.72	34.0%
Supporting People	0.37	0.00	-0.37	0.0%	0.39	0.00	-0.39	0.0%
Other Housing	5.04	0.85	-4.19	-83.1%	4.75	0.85	-3.90	-82.1%
Total Housing	16.47	13.70	-2.77	-16.8%	15.27	13.70	-1.57	-10.3%
Unallocated Contingencies / Other Services	0.31	0.70	0.39	125.8%	0.86	0.70	-0.16	-18.4%
Total Expenditure	153.85	186.75	32.90	21.4%	155.65	186.75	31.10	20.0%
Budget Requirement	139.81	164.69	24.88	17.8%	146.62	164.69	18.07	12.3%

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		

Appendix 3

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 – 29.1.2007

	Q/E1 2007	Q/E2 2007	Q/E3 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
Bank rate	5.50%	5.50%	5.25%	5.00%	5.00%	5.00%	4.75%	4.75%	4.50%	4.50%	4.50%	4.50%	4.75%	4.75%	4.75%
5yr PWLB rate	5.50%	5.25%	5.00%	4.75%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
10yr PWLB rate	5.00%	5.00%	4.75%	4.75%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
25yr PWLB rate	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
50yr PWLB rate	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%

Capital Economics interest rate forecast – 6.2.2007

	Q/E1 2007	Q/E2 2007	Q/E3 2007	Q/E4 2007	Q/E1 2008	Q/E2 2008	Q/E3 2008	Q/E4 2008
Bank rate	5.25%	5.50%	5.50%	5.25%	5.00%	4.50%	4.50%	4.50%
5yr PWLB rate	5.55%	5.15%	4.85%	4.65%	4.45%	4.55%	4.65%	4.75%
10yr PWLB rate	5.15%	4.85%	4.45%	4.45%	4.55%	4.65%	4.75%	4.85%
25yr PWLB rate	4.45%	4.35%	4.25%	4.25%	4.25%	4.35%	4.45%	4.55%
30yr PWLB rate	4.25%	4.15%	3.95%	4.05%	4.05%	4.15%	4.25%	4.35%
50yr PWLB rate	4.05%	3.95%	3.95%	4.05%	4.05%	4.15%	4.15%	4.25%

UBS interest rate forecast (for quarter ends) – 15.1.2007

	Q/E1 2007	Q/E2 2007	Q/E3 2007	Q/E4 2007	Q/E1 2008	Q/E2 2008	Q/E3 2008	Q/E4 2008
Bank rate	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%
10yr PWLB rate	4.85%	4.80%	4.80%	4.80%	4.80%	4.80%	4.80%	4.90%
25yr PWLB rate	4.25%	4.25%	4.25%	4.30%	4.35%	4.40%	4.45%	4.55%
50yr PWLB rate	4.15%	4.15%	4.25%	4.35%	4.40%	4.45%	4.55%	4.65%

2. SURVEY OF ECONOMIC FORECASTS

HM Treasury – January 2007 summary of forecasts of 26 City and 14 academic analysts for Q4 2006 and 2007. (2008 – 2010 are as at November 2006 but are based on 18 forecasts)

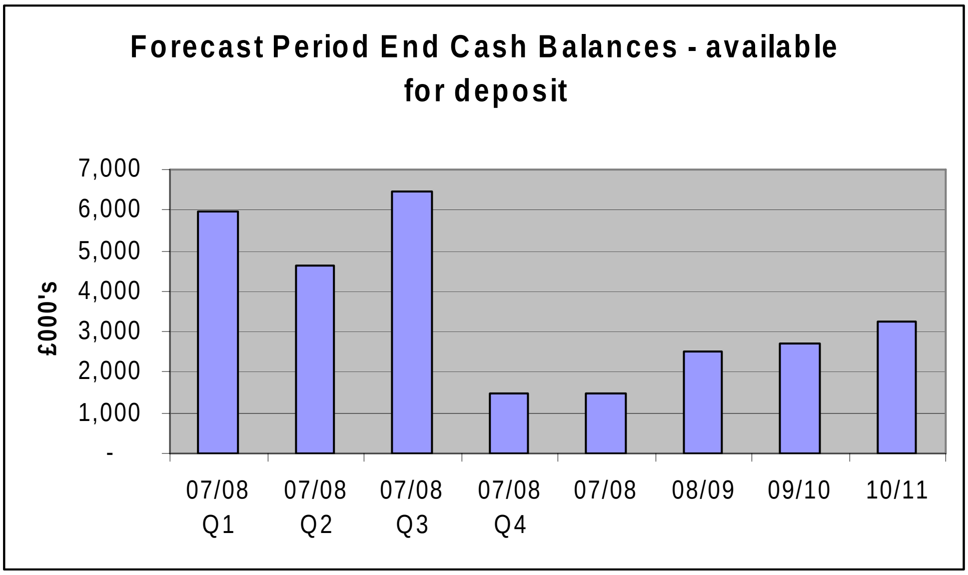
	bank rate	Quarter ended		annual average bank rate		
	actual	Q4 2006	Q4 2007	ave. 2008	ave. 2009	ave. 2010
Indep. forecasters BoE Bank Rate	5.25%	4.98%	4.97%	4.86%	4.88%	4.85%
Highest bank rate	5.25%	5.00%	5.80%	5.90%	5.60%	6.10%
Lowest bank rate	5.25%	4.75%	4.50%	3.75%	4.00%	4.00%

CASH FLOW FORECAST

Appendix 4

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 2007/08 and
- year ends for the following three years



The peaks during the year are due in the main to the timing of Council Tax collections and the payment over of precepts and NNDR.

Rossendalealive BOROUGH COUNCIL

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