Medium Term Financial Strategy

2009/10 – 2011/12

Update – February 2009

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INTRODUCTION

This document is the fourth update of Rossendale Borough Council's Medium Term Financial Strategy (MTFS) and covers the period up to 2011/12.

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

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

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

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

POLICY CONTEXT

About this section

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

OUR AMBITIONS – DELIVERING WHAT MATTERS TO LOCAL PEOPLE

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

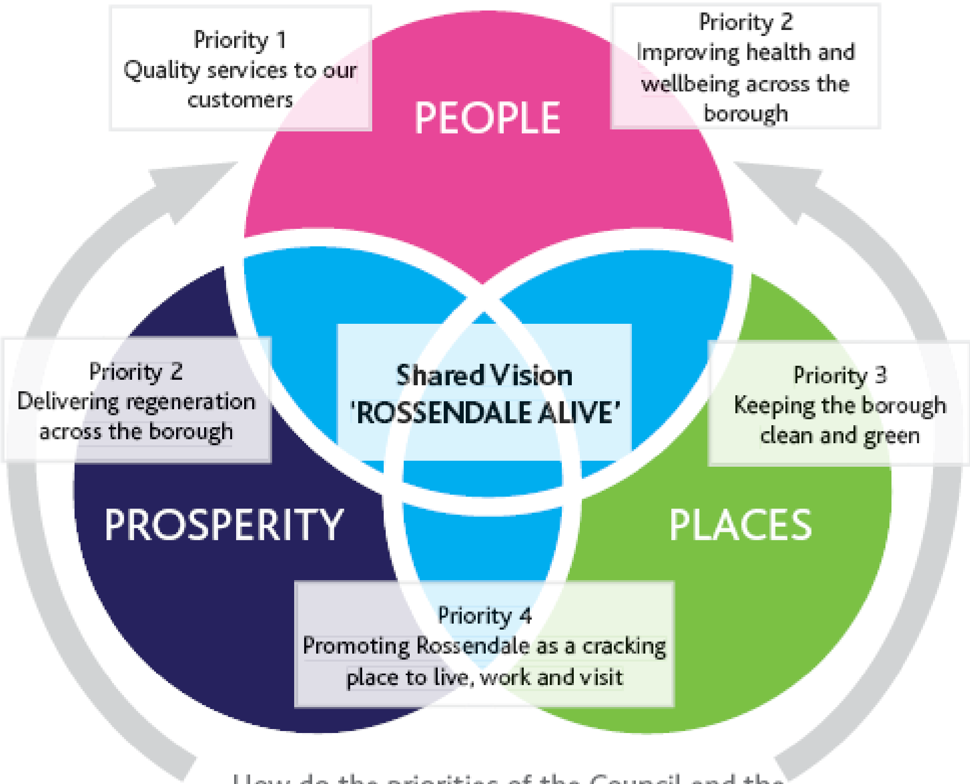
THE VISION FOR ROSSENDALE

The Council and Rossendale Partnership (the Local Strategic Partnership for the borough) share a clear, strategic vision for the borough's future: "By 2018, Rossendale will have strong communities with an enhanced environment and heritage. It will be an attractive place to live, where tourists visit and employers invest". This vision is set out in the new Sustainable Community Strategy for Rossendale (2008 - 2018) which provides the over-arching strategy for Rossendale and was developed by Rossendale Partnership - which brings together a wide range of organisations from across the borough to deliver joint projects and actions to help make Rossendale a better place.

ACHIEVING THE VISION - ROSSENDALE'S SUSTAINABLE COMMUNITY STRATEGY

The new Sustainable Community Strategy sets out the partnership's long-term vision for Rossendale and the challenging priorities it faces over the next 10 years. The key priorities to be addressed were identified through ongoing community consultation and by investigating various sources of evidence, such as what key health, education, crime, housing and economic statistics indicated as potential priority areas for Rossendale. The Sustainable Community Strategy is built around the achievement of three, interconnected priorities:

- People
- Places
- Prosperity



How do the priorities of the Council and the Local Strategic Partnership work together

ACHIEVING THE VISION - THE COUNCIL'S PRIORITIES

By identifying clear priorities and actions to back them up, we can make the greatest possible impact upon the services we provide and the quality of life for everyone in the borough. On a regular basis, the Council reviews the things to which it wishes to devote its time, effort, and resources. These are the Council's priorities. The development of these priorities was informed by a range of consultation activities with local people, and by reviewing what other key sources of data and information about the borough highlighted as priority areas for Rossendale. The Council's five externally focused priorities for 2007 – 2010 are: Delivering quality services to customers Delivering regeneration across the borough Keeping our borough clean and green Promoting Rossendale as a cracking place to live and visit Improving health and well being across the borough The Council has a further, internally focused priority that focuses its ongoing commitment to being a 'Well Managed Council' which it will demonstrate through:

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

ACHIEVING THE VISION – THE STRATEGIC FRAMEWORK FOR ROSSENDALE

Through its 'Community Leadership' role, the Council is the lead partner in the effective delivery of the vision for Rossendale and we are committed to working in partnership with our Local Strategic Partnership and other key agencies to deliver the vision. The Council has developed its corporate strategic framework to provide alignment towards the priorities and targets in Rossendale's Sustainable Community Strategy, together with the regional priorities and targets for Lancashire in 'Ambition Lancashire' and Lancashire's Local Area Agreement 2008 – 2011. By doing this, the Council is able to focus and direct its effort and resources to maximise its own contributions towards the achievement of the priorities and targets identified for Rossendale. The diagram above demonstrates how the five priorities of the Council relate to those set out in the Sustainable Community Strategy for Rossendale.

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

Corporate Priority 1

Delivering Quality Services to Our Customers

Objectives

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

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

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

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

1.3 Stronger relationship between Council and Communities

Corporate Priority 2

Delivering Regeneration Across the borough

Corporate Objectives

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

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

2.1 A thriving local economy

2.2 Well performing town centres

2.3 Well-balanced housing market

Priority Projects:

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

Corporate Priority 3

Keeping our Borough Clean and Green

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

3.1 People feeling safer in their communities

3.2 Better environment for all

Corporate Priority 4

Promoting Rossendale as a cracking place to live and visit

Corporate Objectives

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

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

4.1 More people satisfied with Rossendale as a place to live

4.2 Thriving Visitor Economy

4.2 Improved awareness and understanding of the Council and its achievements

Corporate Priority 5

Improving health and well-being across the borough

Corporate Objectives

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

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

5.1 Increased life expectancy

5.2 Increased levels of activity by people living in the borough

5.3 Improve well-being of local communities

Corporate Priority 6

A Well Managed Council

Corporate Objectives

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

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

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

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

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

Rossendalealive BOROUGH COUNCIL

Links to other strategies

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

Amongst others, the key areas area as follows:

Strategy / Policy	**Financial implications**
Sustainable Community Strategy	Led by the Local Strategic Partnership it sets the framework for priorities over the next 10 years to deliver local priorities. Therefore Strategy is a significantly influence in the allocation of financial resources. .
Locality Plan	This joint Plan with the County Council indicates areas where working together will more effectively address the issues identified within the Sustainable Communities Strategy. This Plan is fundamentally about using existing resources better, rather than generating additional resource requirements. Therefore, currently minimal financial influence the MTFS. However, as the process evolves it may mean that resources are shared between the two Councils in a different way as one means of enhancing the two-tier dimension within which we operate
ICT Strategy	This strategy sets out the requirements for a robust ICT infrastructure and identifies key elements of system replacement and renewal going forward. Resource requirements will largely be in terms of capital resources and investment over and above that currently programmed will need to be justified in terms of a business case identifying revenue savings generating a specified pay back. A significant positive financial contribution has been made to resources by bring ICT service back in-house during 2009/10.
Workforce Plan,	This collection of strategies look to provide

Human Resources Strategy, Organisational Development Plan	the Council with a sustainable, skilled, diverse and adaptable workforce equipped to meet the future needs of the organisation. In terms of financial resourcing and implications for the MTFS these strategies, the key element is the existing training budget, together with the innovative creative[use of existing staffing budgets taking account of the natural turnover of staff, and the development of programmes such as apprenticeship schemes which will allow issues of balance in the workforce to be addressed.. These may have the effect of encouraging grade drift or increased use of market supplements. These issues will have to be dealt with within service budgets.
Asset Management Plan / Capital Strategy	These bring together the Council's processes for identifying the need for and prioritising capital investment and for identifying assets which are not contributing to the corporate priorities. There is an impact on financial planning in terms of the scale of backlog maintenance required, but also in terms of the ability to utilise assets either to provide capital receipts, or generate an income stream.
Economic Strategy	The Strategy provides a three year framework for action by the Council, alongside its partners, to deliver local, regional and national priorities for the sustainable growth of the Borough's economy. The particular financial impact of this Strategy is likely to be in terms of developing different ways of delivering some elements of the economic development function, and also in terms of identifying Council owned sites for use for economic development purposes. The use of such sites might in some cases mean potential capital receipts being either foregone or delayed.
Local Development Framework	As this governs the spatial development of the Borough it can have a significant influence on the Council's ability to raise capital receipts through pro active land disposal. However, policies within the LDF

	can also increase the Council's ability to generate resources to develop facilities for example through section 106 Development Control contributions for play equipment and open spaces. The production of the LDF is in itself a costly process and one which is currently highly dependant upon specific grants. This is an issue which the Council will need to address within the planning period.
Open Spaces and Play Strategies	These Strategies set out plans for the development and enhancement of these facilities up to 2020. The Strategies identify very significant resource requirements some of which are reflected in the Council's capital programme. The strategies themselves identify that the bulk of the resource requirements will need to be met from external funding either in terms of s 106 contributions or other forms of grant. So far around £2m has been levered in for this purpose.
Leisure White Paper	This sets out aspirations and investment requirements for the Council's various leisure facilities over the medium term. These are principally of a capital nature and to the extent that they represent backlog maintenance, they have been factored into the future capital programme. Major investment needs are identified as requiring external funding or the identification of capital receipts from major disposals. Decisions around the 09/10 budget will make both investment priorities and funding clearer. Financial implications are taken into account within the MTFS.

FINANCIAL CONTEXT

About this section

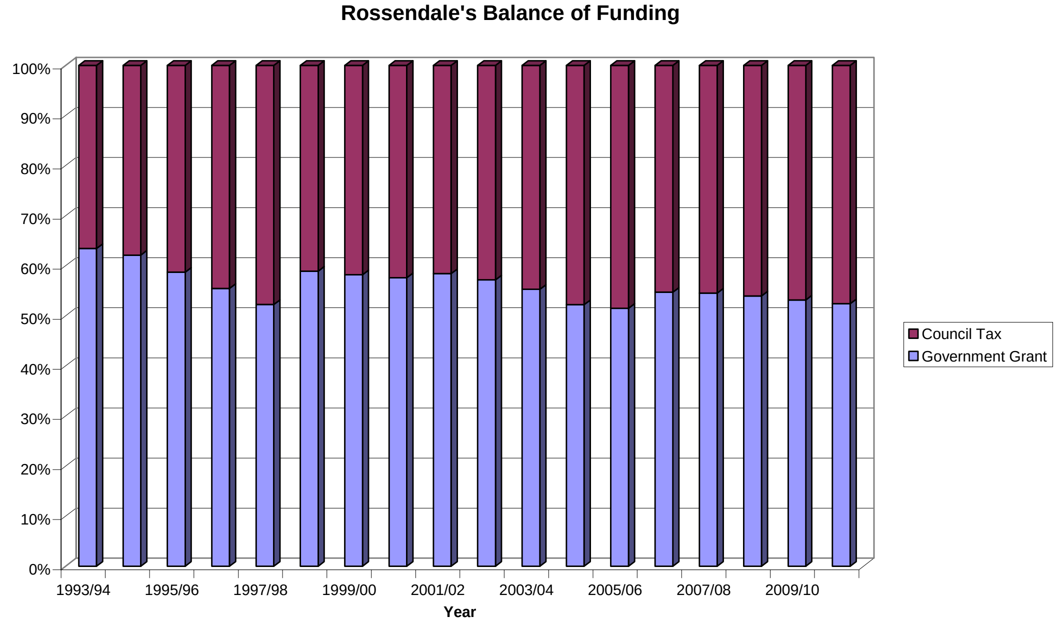
This section briefly gives details of the Council's current and historic levels of resources and the way in which they have been utilised.

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:

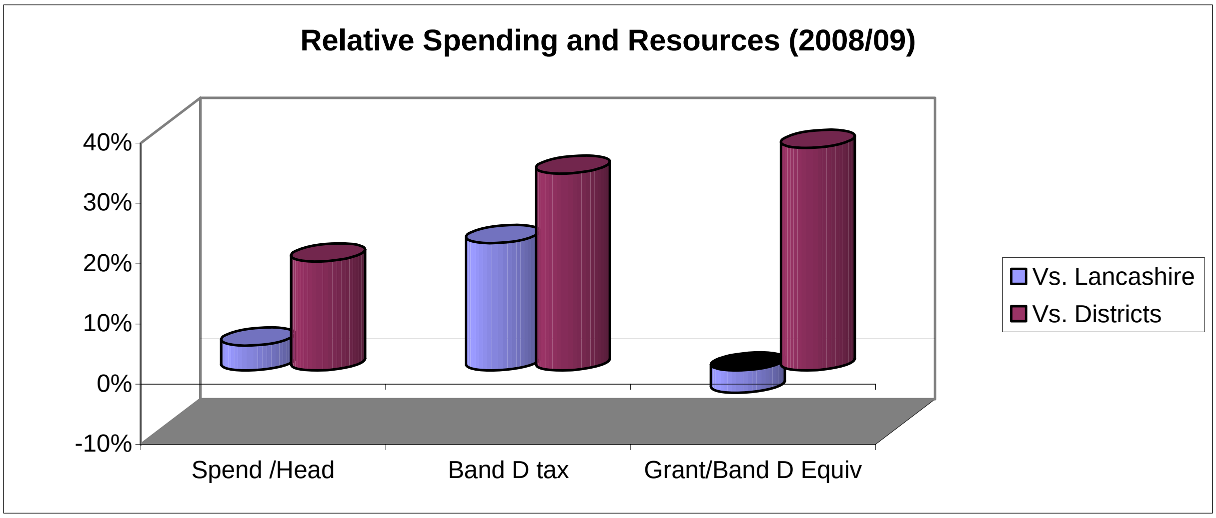


(Source – Budget Working Papers)

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 47% for 2009/10 with further rises forecast. The latter figure is not untypical for District Councils following the changes to fully fund Housing Benefit from national resources. Thus there is nothing out of the ordinary in the split of funding in

Rossendale between local and national taxpayers, indeed given the legacy of the universal capping system it would have been unusual were this not to be the case.

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



(Source CIPFA Finance and General Statistics 2008/09)

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

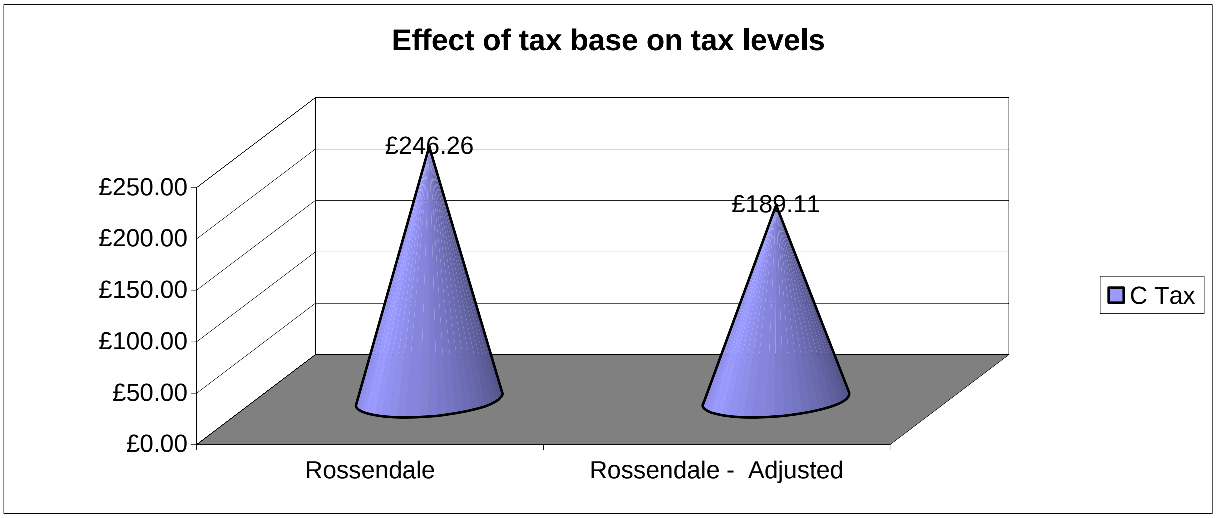
Cash Differences Between Rossendale and Regional and National Averages

Compared to	Spending £000	Council Tax at Band D £	Grant £000
Lancashire:			
2007/08	+855	+47.62	-188
2008/09	+518	+43.45	-239
All English Districts			
2007/08	+2,245	+84.30	+2,812
2008/09	+1,989	+61.23	+1,675

(Source CIPFA Finance and General Statistics 2008/09)

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 is amongst the highest district council taxes in the Country. Given that the broad thrust of the strategy is to bring spending and tax closer to the Lancashire average the above table does indicate that the objective is being achieved

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 2008/09 over 50% of properties were in Band A. In the average district this was 19%. The graph below illustrates the effect this has on the level of Rossendale's Council Tax, through showing what the Council Tax in Rossendale would have been in 2008/09 if the tax base had mirrored the district average mix of property bandings.

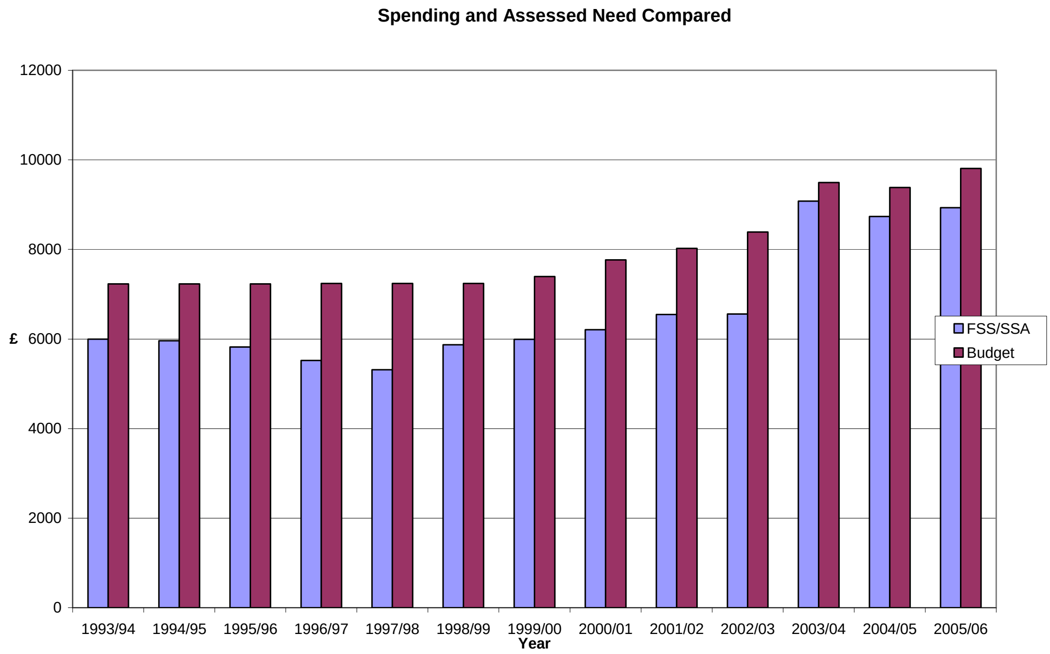


(Source CIPFA - Council Tax Demands & Precepts 2008/09)

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 factors within Rossendale's spending which is resulting in much higher than average spending and consequently higher than average levels of council tax. Once it is understood where these factor are 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 budget spending per head comparators for 2008/09 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 2008/09 data.

	Rossendale v Average District		
Service Area	£/head variance	% Variance	Total £000 Variance
Highways, roads & Transport services	+8.48	+151.4	563
Total Housing Services *In the main Homelessness, Housing Benefit admin.*	+5.88	+32.5	390
Culture and Heritage *This heading includes facilities such as museums, public halls and arts centres.*	-4.18	-71.1	-277
Sport and Recreation *This heading includes both indoor and outdoor leisure facilities*	-3.91	-31.7	-260
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.*	+6.80	+66.5	+354
Cemeteries and Crematoria *Being the councils burial and cemetery services*	+4.24	+1,247.0	+281
Street Cleansing and Litter *This heading covers both manual and automated street cleaning operations, emptying of street litter bins etc.*	+9.87	+100.4	+655
Planning *This heading includes Development Control, Building Control and Forward Planning.*	-4.20	-28.8	-279
Parking *This comprises the costs of off street parking, where the average district generates a net income.*	+8.85	-112.4	+588

(Source CIPFA Finance and General Statistics 2008/09)

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

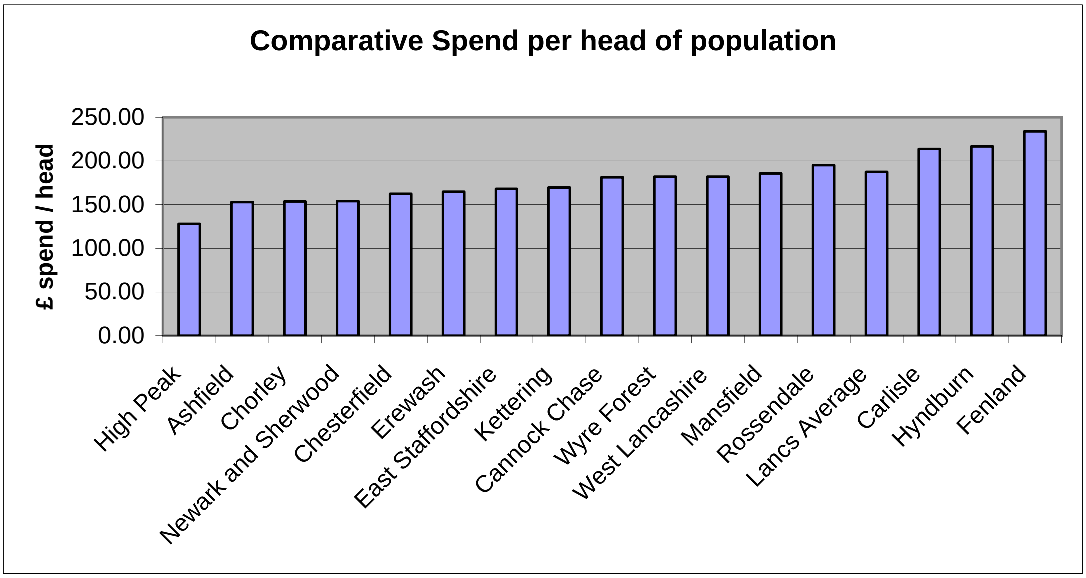
1. In relation to a number of the service areas indicated as spending less than the average the Council has in previous years made specific decisions about their priority for resources. Thus previously, culture and heritage, and planning must generate investment through additional external resources.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

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

3. In the case of parks and open spaces there is an historic legacy issue which causes higher levels of expenditure. The Council has inherited a major park in each main town, together with a wide range of smaller facilities. Clearly the more facilities that exist the greater the volume of activity necessary to maintain them and the greater the cost. This provides a legitimate difference. There are similar legacies in a number of areas, e.g. cemeteries. It is also the case that in many comparable Councils some facilities such as these would be provided by Town or Parish Councils. Given the low penetration of parishes within the Borough this is not the case in Rossendale.

However, it may be the case that high spending in some areas is not associated with any of these, or with a higher level of performance. Thus, based on 2008/09 budget data, the best Council within our nearest neighbour cluster (as described by the Audit Commission) spends £2.87 per head on Street Cleanings and Litter while Rossendale spends the highest at £19.70, with an average spend across all the neighbours of £10.32 (£11.80 average across Lancashire districts). This information needs to lead the Council to questioning the costs and working practices that lead to such differentials. Thus in the example given it may be that there are differences in the way in which resources are deployed and directed that lead to better performance for less cost. The Council therefore will need to identify the areas of greatest difference from cost and performance norms and use benchmarking techniques to identify where improvements in both cost and performance can be made. A significant bench marking exercise was undertaken during 2008. This will continue into 2009 in partnership with Lancashire districts in order to understand more fully the Council's operating cost base.

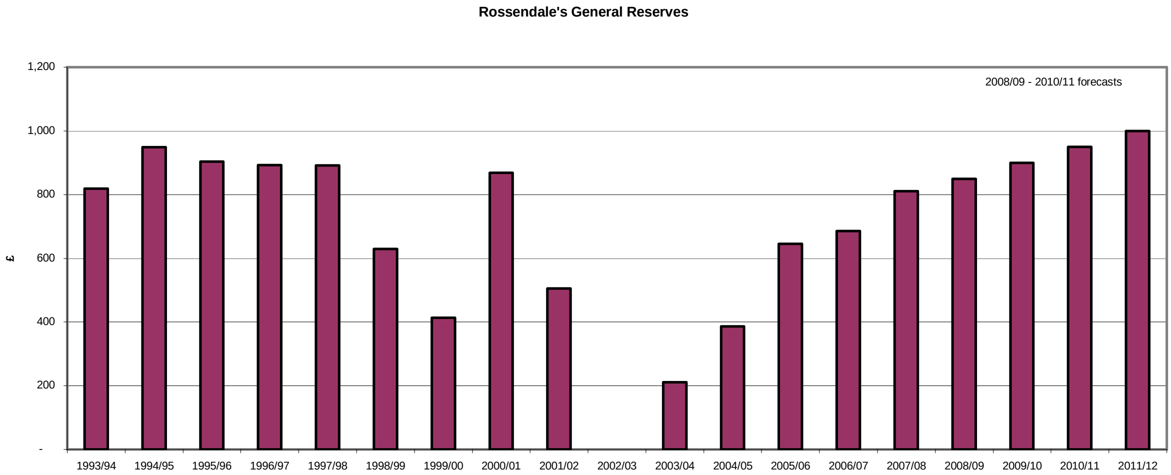
Thus it is possible to see that some of the differences in service spending levels between Rossendale and the average can be sensibly explained and some do, in fact, represent a conscious expression of policy priorities. Indeed compared to the Council's 15 nearest neighbours net revenue expenditure continues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



(Source CIPFA Finance and General Statistics 2008/09)

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

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



(Source: Budget working papers)

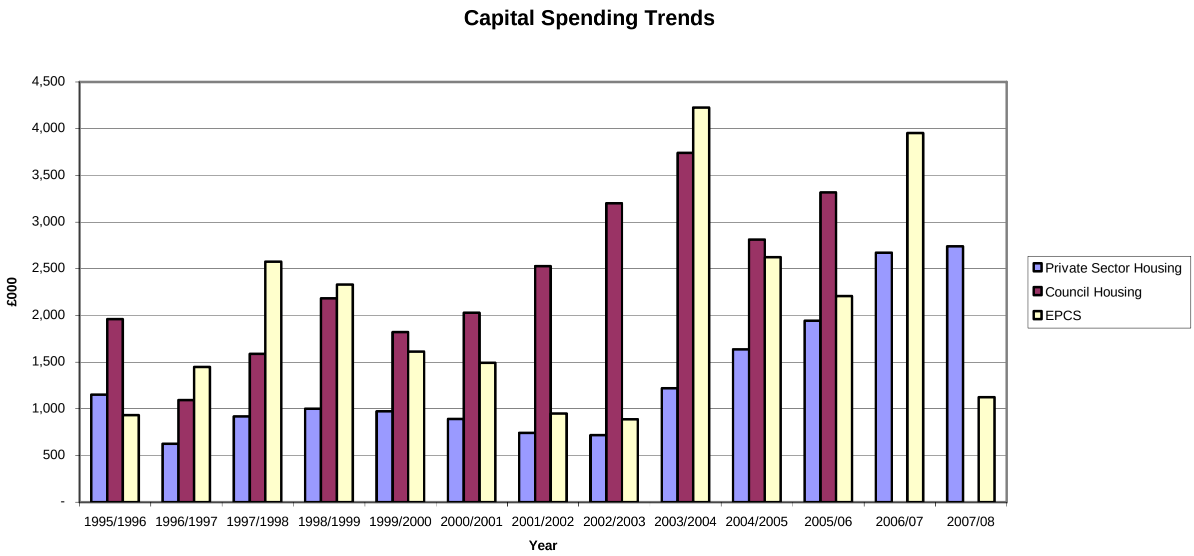
The maintenance of reserves sufficient to help the Council manage the risks it faces is an important measure of financial stability for the organisation and the above graph makes evident that significant progress has been made, in achieving this, in recent years. Policies set out elsewhere in this strategy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

Revenue Spending and Resources – Questions for Councillors

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

Capital Spending and Resources

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



(Source Capital Programme Working Papers)

The preponderance of spending on housing over the whole period would be typical of most District Councils. In particular in recent years this has been boosted by the advent of the Major Repairs Allowance (in relation to Council Housing pre Stock Transfer – March 06) and funding from the Elevate programme, the Regional Housing Pot and Disable Facilities Grants. 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 over the recent past to ensure that the Council has a clear view of the quality of its asset base and the relevant backlog maintenance requirements. These are set out in detail in the Asset Management Plan.

Clearly there is considerable pent up demand for facility improvement, particularly in the area of leisure on which the Council has published a White Paper and in particular detailed options as per the February 2009 Cabinet report (swimming pools, ski slope and leisure halls). 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. Council has taken steps in this area in part funded by the post housing stock transfer resources and more recently as a result of Member decisions to bring ICT services back in-house.

The Council has done much therefore to improve its assets, particularly public facing assets (Buildings, parks, cemeteries, car parks etc). 5 year programmes commenced in 2006/07 and are now due to end shortly. Pressure will rise to continue this investment beyond the initial 5 year periods.

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

The Council had had a policy in the pre Housing Stock Transfer years of using right to buy receipts to finance the Private Sector Housing programme. In policy terms there has been a significant change in the private sector housing programme over recent years. There has been renewal activity focussed on driving up housing standards and reducing the number of empty properties there now comes a need to increase the supply of affordable housing this is very rapidly moving up the agenda for the Council. Part of the Housing Stock Transfer committed any right to buy receipts above £4.5m to an affordable housing programme. However, recent falls in the property market make this resource unlikely.

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.

Clearly the challenge in the current economic environment, which has amongst other things seen a stagnating property market, becomes ever more difficult. It is even more important that in such times that the Council should use all its assets (including non- property related assets) to achieve its corporate priorities.

Capital Spending and Resources – Questions for Councillors

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

THE FINANCIAL PLANNING AND FINANCIAL MANAGEMENT PROCESS

About this section

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

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

The Financial Planning Process

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

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

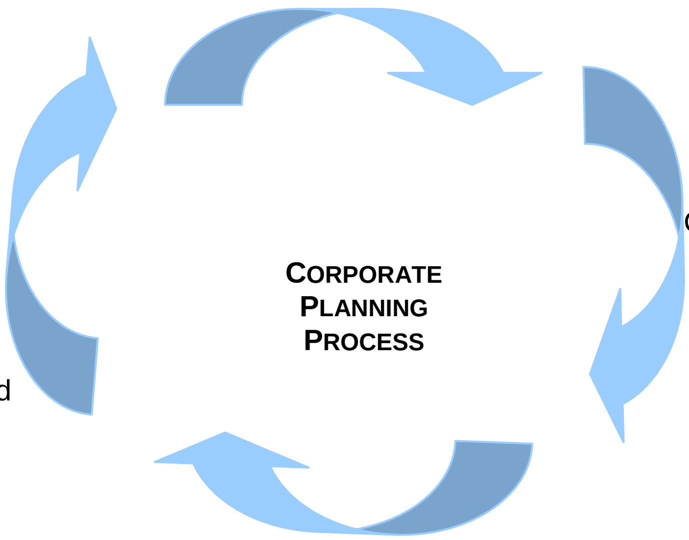
The financial planning process is one of three strands, which make up the Council's integrated business planning process. The overall corporate planning process, which the Council should aim for is set out in the diagram below:

April-June

Evaluate Previous Year

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

January-March



July – September

Assessment of Needs
Financial Forecasts
Consultation on priorities
Corporate Plan

Feedback Consultation
Allocate Resources
Draw up draft balanced Budget

October - December

Key elements throughout this process are:

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

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

- Close liaison between Executive Members and Service Heads

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

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

Rossendalealive
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

Revise Detail of Unit Business Plan

JAN

Consultation

Budget set at February Council

Final Unit Business Plans approved by 31.3, reflecting budget decisions

IMPLEMENTATION

FEB

The financial planning process will need to take account of:

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

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

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

Financial Management Process

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

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

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

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

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

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

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

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

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

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

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

- 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.

- Embedding financial and risk management throughout the organisation.

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.

	20010/11 £000	2011/12 £000	2012/13 £000
Expenditure (less direct grants)	*14,567*	*14,837*	*15,083*
Income	*(2,834)*	*(2,891)*	*(2,949)*
Initial Budget Requirement	**11,733**	**11,946**	**12,134**
Inflation			
Pay	145	291	154
Prices / Volume	176	680	226
Income	40	-64	-66
Revenue Effects of Capital Programme	0	0	0
Technical and Volume Changes	200	100	100
Savings Target to balance resources net of growth	-348	-819	-220
Final Budget Requirement	**11,946**	**12,134**	**12,328**
% Change in Spending	*1.8%*	*1.6%*	*1.6%*

- **Pay –** Pay Awards going forward will be around 2.0%. Full cost of single status is absorbed over the forecast period.

- **Pension Contributions –** Employers contribution rate rises to 20% of pay in 2011/12, 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. They are not material for this forecast.

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

- **Commitments to adoption and changes in recycling –** There could be additional negative impact from domestic waste recycling both locally within Lancashire and globally as a result of changes to the cost of disposal. To this extent £100k within 2010/11 technical and volume changes relates to this matter.

- **Concessionary Fares –** Transfer to the upper tier authority in April 2011 at a net cost estimated, estimated on a worse case scenario, at £400k but this is uncertain at the time of writing and will depend on the method used to make the change which will be decided as part of the negotiations on the next three year settlement.

- **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, 0% assumed for ,11/12 onwards.
    - *Fees and Charges* - increased by a composite index, comprising 2/3 pay, 1/3 prices, giving increases of c.2%. All budgets are also adjusted to reflect current activity levels (e.g. to take account of a reduction in the number of planning applications).

Other possible areas of new commitment include:

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

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

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

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

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

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 4.1% each year (although expenditure has only grown by on average 3.4%, the difference being the so called "gearing effect"). The Treasury's inflation target for general inflation is 2.5% (as measured by the retail price index, but 2% when measured by the Consumer Prices Index), although inflation in local government for various technical reasons concerned with the make up of the various cost drivers which affect councils is acknowledged to run somewhat higher than this. Clearly it would be desirable for the Council to reduce expenditure growth below its long term trend in order to bring the trend rate of increase in Council Tax down. There is a balance to be struck here between what is desirable in terms of reducing the impact of the Council's relatively small element of the Council Tax bill and the achievement of a deliverable budget. The planning assumptions in relation to expenditure growth are set out below:

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

Revenue Resources

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

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

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

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

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

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

d) 20010/11 represents the final year of certainty with regard to the general government grant. Each of the last 2 years has seen the grant increase by only 0.5%. The forecast model assumes 0.0% in each of the following years – a reflection of the current economic outlook, although there remains a possibility that given the overall tightness of the public finances grant could be reduced in cash terms.

There are other much smaller general sources of government grant (relative to the Total Formula Grant) which will become available over the planning period:

- Local Authority Business Growth Incentives
- LAA Performance Reward Grant

- Area Based Grant
- Concessionary Fares Grant
- Healthy Communities
- Planning Delivery 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. No further receipts from this source are included in the forecast.

Similarly the LAA reward grant (50:50 split capital and revenue) is expected to be received in supporting the objectives of the LSP. As accountable body resources will be earmarked for corporate priorities of a one off, ie, non-recurrent nature.

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

Concessionary Fares grant is a new grant received by Travel Concession Authorities (TCAs) to fund the anticipated increased cost of the new national scheme which commenced April 08. 2008 saw the introduction of smart card data giving the ability to calculate the rael cost to district. Due to uncertainty across Lancashire as to the impact of concessionary travel on district and unitary finances a 3 year pooling arrangement was agreed across Lancashire.

Healthy Communities grant, sponsored by the Department of Health for the promotion of health across the borough be that in lifestyles, physical activity and general health awareness and education.

Planning Delivery grant, received from DCLG based on performance of the Council's Planning and Development Control function.

Final decisions on recent leisure options regarding new facilities and closure of old facilities could result in revised top-slicing arrangements regarding existing unearmarked resources.

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

Key Assumption 3
Total Formula Grant will increase in line with the three year settlement for the whole forecast period. Thereafter increase are assumed to be 0% per annum.

Key Assumption 4

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

Key Assumption 5

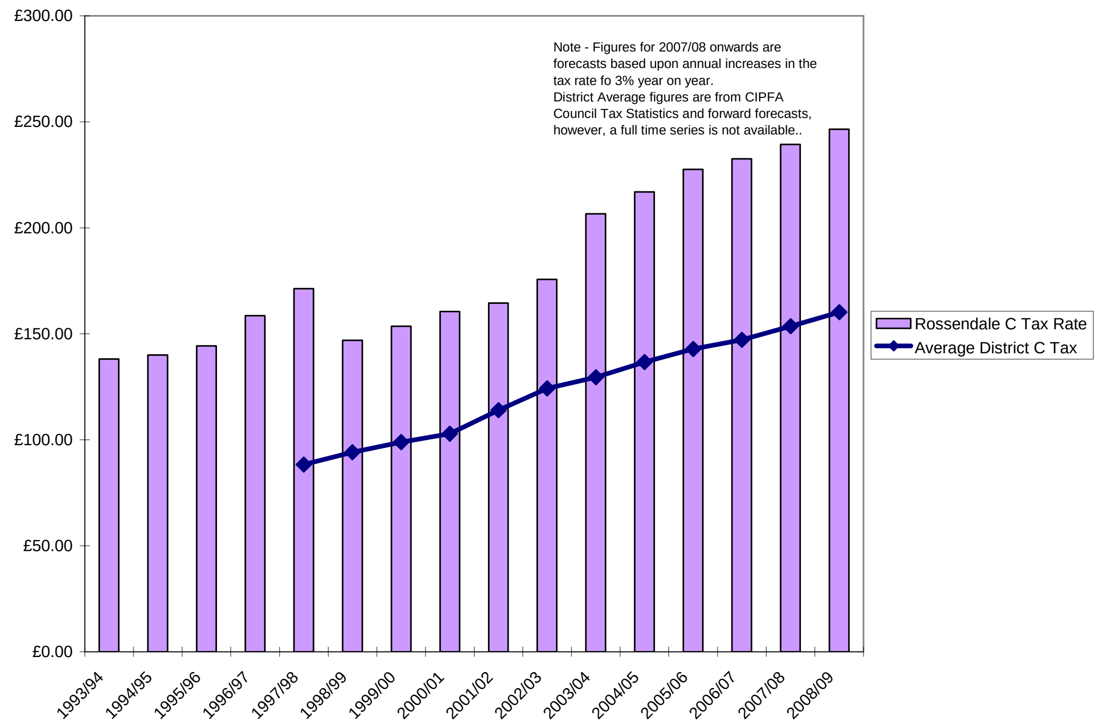
Any proceeds from the Local Authority Business Growth Incentive scheme will be earmarked for future economic regeneration projects (subject to exceptional corporate pressures) and will not affect underlying expenditure.

Key Assumption 6

Any proceeds from the Local Area Agreement Reward Grant will be earmarked within a dedicated provision for future Local Area Agreement targets and the priorities of Council in association with the LSP

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 2009/10 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 the current economic outlook mean that the rate of growth is likely to be below the long term trend rate of 0.7% per year. The rate used for the following three years is therefore 0.3% per annum.

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

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

Key Assumption 7
That the tax base increases at a rate of 0.3% per annum. This is 0.4% below the longer term trend, reflecting the current economic restrictions on development in the Valley.

Key Assumption 8

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

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

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

- General Reserves, which are not held for any specific purpose, but which are available to assist with the management of financial risks and to deal with any emergencies which might arise.
- Earmarked Reserves, which are sums of money set aside for a specific purpose or project.

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

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

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

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

Performance Management Reserve – To meet the cost of target achievement within the Revenues, Benefits and Customer Contact contract capped at a maximum £25k per annum

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

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

Regulatory Services Reserve – To deliver the Local Development Framework, which will enable the regeneration of Rossendale.

Health & Wellbeing Reserve – to hold various health related grants in order to enable the funding of health related partnerships

IT Reserves – initially funded from the housing stock transfer, this reserve is intended to fund ongoing investment in information technology upgrades and services

Pension Fund Reserve – Continues to be funded from post housing stock transfer receipts to meet pension fund liabilities associated with past service and in particular those of housing.

NB – At the time of writing no decision has been made to address the balance sheet deficit currently residing in Rossendale Leisure Trust. As part of the budget proposals one proposal is to top slice some or all of the above reserves in order to create a contingency fo the current deficit. Further details are shown in appendix 3 dealing with the Risk Analysis.

Subject to the above, 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. Implicit in the forecast is some assumption that th Council will be able to generate some budget savings on an annual basis. Reserves are therefore forecast as follows:

	Actual Balance at 1st Apr 07	Actual Balance at 31st Mar 08	Forecast Balance at 31st Mar 09	Forecast Balance at 31st Mar 10	Forecast Balance at 31st Mar 11
General Reserves	811	**811**	**850**	**925**	**1,000**
Earmarked Reserves					
Change Management	141	661	561	461	361
IT Reserve	500	370	70	50	20
Single Status	-	669	558	458	388
Budget Volatility Reserve	100	372	282	282	282
Economic Regeneration	661	847	755	663	571
Performance Reserve		68	43	18	-
Pension Fund	184	396	396	396	396
Regulatory Reserve	100	400	250	-	-
Total Earmarked	**1,686**	**3,783**	**2,915**	**2,328**	**2,018**
Total Reserves	**2,497**	**4,594**	**3,765**	**3,253**	**3,018**

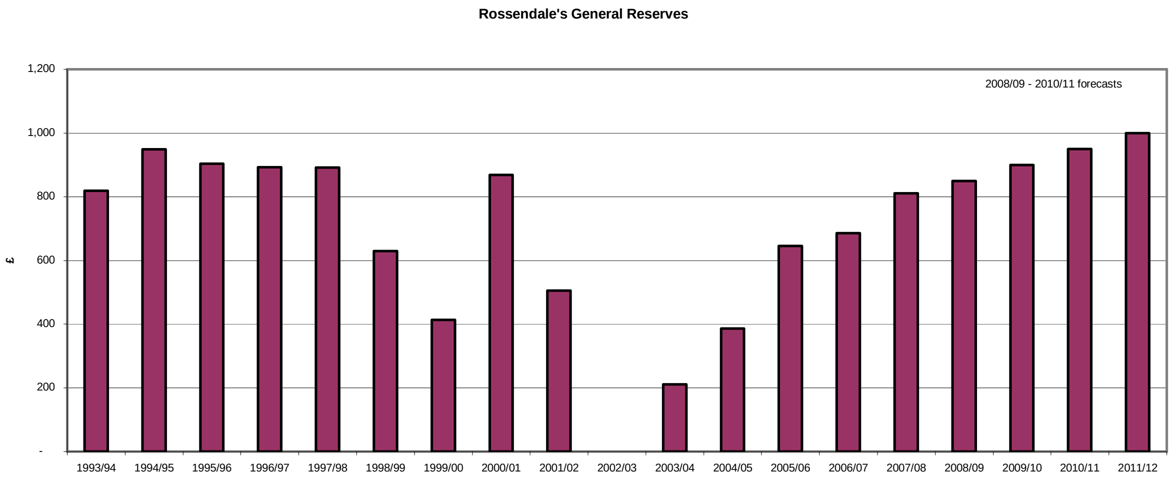
From the above it is clear that the Council has to the extent possible allocated the reserves available to it to cover off the major strategic risks which it faces, in particular in relation to Single Status. These actions together with the delivery of the Improvement Programme will reduce the Council's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

The funding issues surrounding leisure and in particular the Trusts balance sheet deficit have resulted in an initial option of top slicing of earmarked reserves

The Council's 2008/09 policy is to maintain General Reserves (or balances) at between £0.5m and £0.75m. This is required to deal with unexpected budget variances, legal claims, pay awards and so on. Taking pay awards as a further example a cushion of this sort would allow the Council to absorb a 3 year pay award of 4% in excess of the allowance made in the budget. The likelihood of an excess pay award on this scale is remote. This illustrates the point that a reserve cushion on this scale together with appropriate use of earmarked reserves will allow the Council to absorb a number of unexpected events in any one year. However, the impact of the current economic outlook whether it be treasury matters, recycling markets, potential changes to concessionary travel financing plus a negative balance sheet within Rossendale Leisure Trust lead to the conclusion that General Reserves should be increased. A target for General Reserves is illustrated in the table below.

	Cash Sum £000	As % of 2009/10 Budget Requirement
Minimum Level of General Balances	750	6.3%
Level of Balances Reflected in 2008/09 Budget	800	6.8%
Maximum Level of General Balances	1000	8.5%

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



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

Key Assumption 9

*General Reserves will be maintained at a minimum level of £800k, with the potential to rise to a maximum of £1.0M, and will under **no** circumstances be used to support recurrent revenue expenditure or reductions in the level of the Council Tax.*

Key Assumption 10

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

Matching Spending and Resources

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

The forecasts set out above can be summarised as follows:

	20010/11 £000	2011/12 £000	2012/13 £000
Forecast Budget Requirement	12,294	12,953	12,548
Head room for Growth	0	0	0
Requirement for savings	(348)	(819)	(220)
Forecast Resporces	11,946	12,134	12,328

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 continues to 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 £1.4m of cost reductions over the 3 year period 2010/11 and 2012/13 be agreed, with options to achieve this being identified for consideration by members during 2009/10. Traditionally we have 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. However give the scale of savings required the organisation needs to make a corporate wide review of savings opportunities:

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

It also needs to be borne in mind that that reducing costs is not the only way of making savings, it is important that the Council continues to fundamentally review its policies for the raising of income through charges for services, this is currently being undertaken amongst other areas in Markets and cemeteries.

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

Key Assumption 11
Savings or additional income options of up to £1.38m for the years 20010/11 and beyond will be identified for consideration during 2009/10. Savings will be included in the Council's budget which meet the following prioritised criteria:

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

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

Key Assumption 12

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

- *Additional statutory requirements.*
- *Delivery of improvements in performance, particularly against the Council's corporate priorities*
- *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 2009/10 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 at 2.0% has therefore 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). The triennial valuation and subsequent employer rates will commence April 2010. The assumption is +2% increase in employers rates to 20.8%, in addition to the lump sum contributions being made through the stock transfer proceeds.

- Income - The Council has previously sought to transfer the biggest risk in this area through the transfer of services to Rossendale Leisure Trust, however the events of 2008/09 have shown that shared risk still exists. There are, though, other smaller income streams which are affected by market conditions, recently in relation to property related incomes and recycling. These are reflected in the forecast where they are significant enough to have been highlighted in budget monitoring.

- Concessionary travel – indications for 2008/10 now anticipate actual cost out turn to be near to current budgets. This follows the introduction of smart data and the ability to allocate actual costs to districts. However, there is now a move by central government to move concessionary travel costs and resources to the upper tire authority, in the case of Rossendale – Lancashire County Council (LCC). There is a significant risk that resources of £400k in excess of costs will transfer to LCC, which has been factored in the above target saving, although the final figure will depend on exactly how the changes to the formula grant system are made.

- General Economic Outlook – The council is not immune to the impact of world economic decline. Some areas are mentioned above (property, recycling, pensions) other areas are impacted upon negatively (treasury management, energy, etc). A significant hit has been taken in 2008/09 and will continue over the following three years with little anticipation of recovery over this period. The Council has not seen any negative impact on Council Tax collections but should ensure that this area is kept under careful watch.

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 previously covered off through the strategy recommended for the use of earmarked reserves and other financial measures proposed.

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

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

CAPITAL PROGRAMME FORECAST

About this section

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

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

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

Capital Spending

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

	2009/10	**2010/11**	**2010/12**
	Total £000	**Total £000**	**Total £000**
Customer Services & e-Government	0	0	0
SS & NS	1,058	564	609
Communities & Partnership	15	15	0
Regeneration	2,788	915	0
Corporate	341	205	0
Housing	3,146	2,812	2,812
Total	**7,348**	**4,511**	**3,421**

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

Given the above capital programme and forecast capital receipts, the programme over commits resources by £0.5 m at 31st Mar 2012. This is regarded as the maximum possible level of over programming and can be managed through slippage, the fact that capital receipt estimates used are deemed prudent and short term borrowing is available.

However, there continues to 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 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, though some work has successfully been performed during 2008 to accommodate additional leased vehicles within the recurrent revenue budget.
- The need to invest in technological solutions in order to deliver improved efficiency across the organisation, as well as providing the basis for improved service to customers.
- The need to actively address certain types of risk so as to benefit the revenue budget. This might include the resurfacing of play areas and car parks, the stabilisation of gravestones and the resurfacing of paths etc in parks in order to reduce the likelihood of trips, slips and falls which generate insurance claims.

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

The key assumptions around capital spending going forward are:

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

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

Key Assumption 14

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

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Capital Resources

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

	Total £000	2009/10 Total £000	2010/11 Total £000	2011/12 Total £000
Grants / Third Party Support				
ELEVATE	6,573	2,191	2,191	2,191
DFGs	1,059	353	353	353
Capital Grants	1,715	611	552	552
R S Economic Development Programme	3,643	2,758	885	0
	12,990	**5,913**	**3,981**	**3,096**
RBC Receipts				
Right To Buy Receipts	550	275	275	0
VAT Shelter rev' contribution after pension payment	630	210	210	210
General surplus asset disposals	300	100	100	100
RBC Useable Capital Receipts b/fwd	276	276	0	0
Total	**14,746**	**6,774**	**4,566**	**3,406**

The above table reflects an estimate of capital grants by which the Government will support District Council capital expenditure from 2009/10 onwards (In particular The Housing Pot). It is assumed that support continues at the same level through the planning period. Should this not be the case the Capital expenditure programme will be reduced accordingly.

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

Key Assumption 15

Capital receipts through retained right to buy following stock transfer will continue at the current level of 2008/09 until 2010/11to a 5 year maximum of £4.5m

Key Assumption 16

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

Key Assumption 17

Forward projections of external funding reflect current knowledge of allocations.

In addition to the funding outlined above it is possible for the Council to undertake so called Prudential Borrowing if it is affordable. Given the overall revenue budget forecast it seems unlikely that it will be possible to fund significant borrowing unless resources are diverted from elsewhere (ie a robust financial business case is made). Thus no significant long term borrowing is included in the forecast with the justification for such borrowing needing to be considered on a case by case basis. Thus the key assumption around this is:

Key Assumption 18
Prudential borrowing will only be undertaken where a business case, which has been subjected to an appropriate due diligence process identifies that it can be afforded either through the generation of revenue savings or the creation of new income streams.

At present prudent assumptions have been made around the sale of General Fund assets as these will be significantly restrained by current economic conditions and forecasts for the medium term. As part of the Asset Management Plan work has been completed to identify assets which do not contribute to achievement of the corporate priorities. A disposal programme is currently under way with a view to maximising capital receipts over the medium term.

Matching Capital Expenditure and Resources

Based on:

- the forecasts above
- capital receipts previously used to repay internal borrowings,
- the forecast for the 2008/09 capital out turn
- the previously approved "accommodation strategy"

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

	£000
Total Forecast Resources	14746
Less: Forecast Spending	15280
Resources deficit (2009/10 – 2011/12)	**(534)**
Other aspirations and estimated cost:	
1 – Single site accommodation (no assumption re capital receipts)	4,200
2 – Leisure facilities	3,000
3 – Repayment of CFR (technical)	1,639
Deficit in Resources Available for Other Investment	**9,373**

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

Risk Assessment

As with the revenue budget all the above are forecasts rather than detailed budgets, and there is a need to complete the detailed assessment of the state of the Council's asset base before clear decisions can be made in some areas. However, given the aspirations of Council robust business cases are required for all major capital expenditure programmes together with careful scrutiny of the Council's asset base in order to ensure that if major assets are not working towards corporate priorities they are disposed of.

Clearly the greatest area of risk lies within the generation of capital receipts which over the next three years indicate a cumulative deficit, before ambitions outside the core programme of c,£500k. The risk is mitigated in the short term with some short term borrowing however the capital programme and the generation of capital receipts will require regular monitoring over the forth coming months and years, and make the final statement above even more important.

2009/10 Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment 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.

1. INTRODUCTION

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

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

The suggested strategy for 2009/10 in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor. The strategy covers:

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

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

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

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

2. TREASURY LIMITS FOR 2009/10 TO 2011/12

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

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

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

3. PRUDENTIAL INDICATORS FOR 2009/10 – 2011/12

The following Prudential Indicators (in table 2 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 on 16th March 2005 by the full Council.

PRUDENTIAL INDICATOR	2007/08	2008/09	2009/10	2010/11	2011/12
(1). EXTRACT FROM BUDGET AND RENT SETTING REPORT	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	actual	**probable outturn**	**estimate**	**estimate**	**estimate**
Capital Expenditure					
Non - HRA	£3,864	£5,003	£7,348	£4,511	£3,421
TOTAL	£3,864	£5,003	£7,348	£4,511	£3,421
Ratio of financing costs to net revenue stream					
Non - HRA	1%	1%	1%	1%	1%
Net borrowing requirement					
brought forward 1 April	£0	£0	£1,500	£1,500	£4,500
carried forward 31 March	£0	£0	£3,000	£4,500	£3,000
in year borrowing requirement	£0	£1,500	£1,500	£3,000	(£1,500)
Capital Financing Requirement as at 31 March					
Non – HRA	£1,639	£1,554	£1,469	£1,384	£1,299
TOTAL	£1,639	£1,554	£1,469	£1,384	£1,299
Annual change in Cap. Financing Requirement					
Non – HRA	£414	£85	£85	£85	£85
TOTAL	£414	£85	£85	£85	£85
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	2007/08	2008/09	2009/10	2010/11	2011/12
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	actual	**probable outturn**	**estimate**	**estimate**	**estimate**
Authorised Limit for external debt -					
borrowing	£4,000	£4,000	£7,000	£7,000	£7,000
other long term liabilities	£0	£0	£0	£0	£0
TOTAL	£4,000	£4,000	£7,000	£7,000	£7,000
Operational Boundary for external debt -					
borrowing	£2,500	£2,500	£2,500	£2,500	£2,500
other long term liabilities	£0	£0	£0	£0	£0
TOTAL	£2,500	£2,500	£2,500	£2,500	£2,500
Upper limit for fixed interest rate exposure					
expressed as either:-					
Net principal re fixed rate borrowing / investments	100%	100%	100%	100%	100%
Upper limit for variable rate exposure					
expressed as either:-					
Net principal re variable rate borrowing / investments	30%	30%	30%	30%	30%
Upper limit for total principal sums invested for over 364 days *(Being the maximum invested at any one time, less the value of investments maturing within 30 days)*	£4,000	£4,000	£4,000	£4,000	£4,000

Maturity structure of fixed rate borrowing during 2009/10	upper limit	lower limit
under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

4. CURRENT PORTFOLIO POSITION

The Council's treasury portfolio position at 28th January 2009 comprised:

		Principal		Ave. rate
		£m		%
Fixed rate funding	PWLB	1.5		
	Market	0	1.5	0.9
Variable rate funding	PWLB	0		
	Market	0	0	0
Other long term liabilities			0	
TOTAL DEBT			**1.5**	0.9
TOTAL INVESTMENTS			**12.5**	**3.1%**

5. BORROWING REQUIREMENT

	2007/08	**2008/09**	**2009/10**	**2010/11**	**2011/12**
	£000	**£000**	**£000**	**£000**	**£000**
	Actual	**Probable**	**Probable**	**Probable**	**Probable**
New Borrowing	0	1,500	1,500	1,500	0
Alternative Financing arrangements	0	0	0	1,500	1,500
Replacement borrowing	0	0	1,500	1,500	1,500
Total	**0**	**1,500**	**3,000**	**4,500**	**3,000**

6. PROSPECTS FOR INTEREST RATES

The Council has appointed Sector Treasury Services as treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates. Appendix B 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 – 6th December 2008

	Q/E1 2009	Q/E2 2009	Q/E3 2009	Q/E4 2009	Q/E1 2010	Q/E2 2010	Q/E3 2010	Q/E4 2010	Q/E1 2011	Q/E2 2011	Q/E3 2011	Q/E4 2011	Q/E1 2012
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.75%	2.50%	3.25%	3.75%	4.00%
5yr PWLB rate	2.50%	2.25%	2.15%	2.15%	2.15%	2.45%	2.80%	3.15%	3.65%	3.95%	4.20%	4.45%	4.60%
10yr PWLB rate	3.10%	2.75%	2.55%	2.55%	2.55%	2.85%	3.25%	3.65%	4.15%	4.40%	4.70%	4.75%	4.85%
25yr PWLB rate	4.00%	3.95%	3.95%	3.95%	4.00%	4.15%	4.35%	4.45%	4.60%	4.85%	4.95%	5.00%	5.05%
50yr PWLB rate	3.85%	3.80%	3.80%	3.80%	3.85%	3.90%	4.00%	4.25%	4.40%	4.70%	4.80%	4.95%	5.00%

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

- will fall from current levels because of the intensifying global recession
- Starting 2009 at 2.00%, Bank Rate is forecast to fall to 0.5% in Q1 2009
- It is then expected to remain there until starting to rise gently up from Q2 2010 till it reaches 4.0% in Q1 2012.
- There is downside risk to these forecasts if the recession proves to be deeper and more prolonged than currently expected.

ECONOMIC BACKGROUND

Introduction

- The sub prime crisis of early 2008 was supplanted by the banking crisis of autumn 2008. The world banking system came near to collapse and governments around the world were forced to recapitalise and rescue their major banks. The resulting dearth of lending from banks anxious to preserve capital led to economic forecasts being sharply reduced and recession priced into markets. This in turn led to sharp falls in oil and other commodity prices with the result that inflation, which in the UK was running at over 5%, became yesterday's story and recession fears drove interest rate sentiment and policy. A co-ordinated global interest rate cut of 50bp took place on 8th October 2008. Forecasts in the UK were for further sharp cuts in interest rates as recession came into view.

International

- Early in 2008 the US economy was being badly affected by the housing market slump. Interest rates were at 2% and inflation was being dragged higher by the inexorable rise in commodity prices. The ECB was very concerned about rising inflation and less about the state of the economy.
- The second quarter of 2008 was torn between inflation worries on the one hand, with oil rising towards $150 per barrel, and the deteriorating economic outlook on the other.
- In the second and third quarters of the year the financial crisis erupted and escalated as the world became aware of the extent of the sub-prime fiasco and the impact it was having on institutions that had invested in these issues.
- In September Fannie Mae/Freddie Mac (the mortgage banks) and AIG, the insurance giant, had to be bailed out by the US Federal Government.
- Then in mid September, Lehman Bros., the investment bank, was allowed to fail. This triggered a domino effect with other banks and financial institutions having to be rescued or supported by governments around the world.
- After the collapse into receivership of the Icelandic banks in early October, other countries then started to feel the strain and a number had to approach the IMF for support.
- Eventually even the Asian 'Tiger' economies were affected, including India and China, and it became clear that the crisis had become a global one and no country was insulated from it.
- The financial crisis had therefore precipitated an economic crisis and there was a co-ordinated global interest rate cut with the Fed, ECB and MPC all cutting rates by 50bp on 8th October. The Fed subsequently cut rates again by 50bp to 1% on 29th October and again on 16 December to a band of 0.0% to 0.25% in an attempt to stave off the oncoming recession. Inflation was yesterday's problem.
- On 4th November the USA elected Barack Obama as President with little immediate financial impact.
- The ECB reduced rates again on 6th November by 50bp and by its biggest ever cut of 75bp on 4 December to reach 2.5%.

UK

- GDP: growth was already slowing in 2008 from 2007 before the full impact of the credit crunch was felt. Earlier in 2008 GDP was 2.3% whereas in the autumn the figure fell back to -0.3% and was then expected to continue to be negative going into 2009.
- Wage inflation remained relatively subdued as the Government kept a firm lid on public sector pay. Private sector wage growth was kept in check by the slowing economy.
- Growth slowed across the economy and unemployment rose throughout the year with forecasts of 2 million unemployed by the end of the financial year and continuing to increase thereafter through 2010.
- Notwithstanding the pressures on household finances consumer spending still continued at a reasonable clip although the trend was slowing as the year progressed.

- Bank lending came to a virtual standstill in the autumn as the credit crunch tightened its grip and various banks internationally had to be rescued, or supported, by their governments.
- The Government and Bank of England supplied massive amounts of liquidity to the banking market in an attempt to reignite longer interbank lending.
- The Government took action in September to either supply finance itself to recapitalise some of the major clearing banks or to require the others to strengthen their capital ratios by their own capital raising efforts. This was so that these banks would be seen to have sufficient reserves to last through the coming recession with its inevitable increase in bad loans etc.
- The housing market also came to a virtual standstill as lenders demanded larger deposits and higher fees. House sales and prices both dropped sharply.
- Government finances deteriorated as income from taxation dropped as the economy slowed and the cost of the bailout of the banks was added to the deficit.
- U.K. equity prices declined sharply in the 3rd and 4th quarters as the impending recession was priced into the markets. Prices hit five year lows and volatility was extremely high.
- The story of 2008 has been the credit crunch, the banking crisis and the change in economic outlook from slow growth to outright recession. After the initial concerns about the impact of the credit crunch in the earlier part of 2008 it appeared as though the storm had been weathered. The MPC had been very concerned about CPI inflation, which had been rising sharply on the back of higher commodity and food prices. Bank Rate reached a peak of 5.75% in July 2007 after which cuts of 0.25% occurred in December 2007 and February and April 2008 before the major cuts in the autumn. The economic data had been indicating a slowing economy for some while but it was not sufficiently weak to force the MPC into another cut. It was the strength of the banking crisis, pre-empted by the collapse of Lehmans in New York that eventually drove the MPC to cut interest rates by 50bp on October 8th in concert with the Federal Reserve, the ECB and other central banks. It was then appreciated that the economic downturn would be much more severe than previously thought and interest rates were subsequently slashed by 150bps on 6 November, 100bps on 4 December and 50 bps on 8 January 2009.
- The LIBOR spread over Bank Rate has also been a feature, and a concern, of 2008/9. Because of the credit fears and the reluctance of lenders to place cash for long periods 3 month LIBOR (this is the London Inter Bank Offer Rate – the rate at which banks will lend to one another) has been substantially higher than Bank Rate. This has meant that the MPC's power over monetary policy has been eroded by the widening of this spread between LIBOR and Bank Rate and it has therefore had a limited ability to bring relief to hard pressed borrowers through lower interest rates. However, the power of the Government over the semi nationalised clearing banks had considerable impact in enforcing pro rata

reductions to the 150 bps Bank Rate cut in November on some borrowing rates.

- The Government has abandoned its 'golden rule'. The pre Budget Report on 14 November revealed the Government's plans for a huge increase in Government borrowing over coming years as a result of falling tax revenues and also due to tax cuts and increases in Government expenditure in the short term designed to help stimulate economic growth to counter the recession.

7. BORROWING STRATEGY

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

- *The 50 year PWLB rate is expected to remain around current levels of about 3.80 - 3.90% until Q2 2010 when it is forecast to rise to 4.00%. The rate then edges up gradually to reach 5.00% at the end of the forecast period.*
- *The 25 year PWLB rate is expected to drop to 3.95% in Q1 2009 and stay around there until starting to rise in Q1 2010 and then to eventually reach 5.05% at the end of the forecast period.*
- *The 10 year PWLB rate is expected to drop to 2.55% in Q3 2009 but then to start rising again in Q2 2010 to eventually reach 4.85% at the end of the forecast period.*
- *The 5 year PWLB rate is expected to fall to a floor of 2.15% during Q3 2009. The rate then starts rising in Q2 2010 to eventually reach 4.60% at the end of the forecast period*

This forecast indicates, therefore, that there is a range of options available for borrowing strategy for 2009/10. Variable rate borrowing is expected to be cheaper than long term borrowing and will therefore be attractive throughout the financial year compared to simply taking long term fixed rate borrowing. Under 10 year PWLB rates are expected to be substantially lower than longer term PWLB rates so this will open up a range of choices for new borrowing for authorities that want to spread their debt maturities away from a concentration in long dated debt. Rates are expected to be slightly lower at the middle to end of the year than earlier on so it may be advantageous to borrow later in the year.

Against this background caution will be adopted with the 2009/10 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 – In normal times the main sensitivities of the forecast are likely to be the two scenarios below. The Council officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

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

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

8. DEBT RESCHEDULING

Given that the Council currently holds no external longer than 12 months, 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

9. ANNUAL INVESTMENT STRATEGY

9.1 Investment Policy

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

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

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

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

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

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

SPECIFIED INVESTMENTS

1 - Maturities up to maximum of 1 year.

	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
Banks nationalised by high credit rated (sovereign rating) countries	Short-term __, Long-term __, Individual __, Support __	In-house and fund managers
Government guarantee on ALL deposits by high credit rated (sovereign rating) countries *	Sovereign rating	In-house and fund managers
UK Government support to the banking sector **	Sovereign rating	In-house and fund managers
Certificates of deposits issued by banks and building societies covered by UK Government guarantee	Short-term __, Long-term __, Individual __, Support __	In-house buy and hold and fund managers
UK Government Gilts	Long term AAA	In-house and Fund Managers

***** e.g. Ireland (AAA), Australia (AA+), Singapore (AAA), Hong Kong (AA)

****** Banks supported by the UK bail-out package: -

- Abbey
- Barclays
- HBOS
- Lloyds TSB
- HSBC
- Nationwide Building Society
- RBS
- Standard Chartered

Minimum Credit Rating (as per current Sector Counter Parties Listing)

Officers will ensure that no one institution holds more than the lower of 60% of Council funds (at the time of the investment having regard to the latest 12 month cash flow forecast) or £5m.

2. Maturities in excess of 1 year

Term deposits – local authorities	--	In-house
Term deposits – banks and building societies	* Short-term __, Long-term __, Individual __, Support __	In-house
Certificates of deposits issued by banks and building societies	* Short-term __, Long-term __, Individual __, Support __	In house and Fund managers
UK Government Gilts	AAA	In house and Fund Managers
Bonds issued by multilateral development banks	AAA	In-house and fund managers
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house and fund managers
Sovereign bond issues (i.e. other than the UK govt)	AAA (or state your criteria if different)	In house and Fund Managers
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)		
1. Bond Funds	* long-term __ volatility rating	In-house and Fund Managers
2. Gilt Funds	* long-term __ volatility rating	In-house and Fund Managers

The Council uses Fitch ratings to derive its counterparty criteria. Where counterparty 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 on monthly basis. 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.
- If a body is placed on negative rating watch (i.e. there is a reasonable probability of a rating change and the likelihood of that change being negative) and it is currently near the floor of the of the

minimum acceptable rating for placing investments with that body, then no further investments will be made with that body.

Nationalised banks

In the UK have credit ratings which do not conform to the credit criteria usually used by local authorities to identify banks which are of high credit worthiness. In particular, as they no longer are separate institutions in their own right, it is impossible for Fitch to assign them an individual rating for their stand alone financial strength. Accordingly, they have assigned an F rating which means that at a historical point of time, this bank failed and is now owned by the Government. However, these institutions are now recipients of an F1+ short term rating as they effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. They also have a support rating of 1; in other words, on both counts, they have the highest ratings possible.
The Council's clearing bank is NatWest part of the Royal Bank of Scotland Group (RBS). Whilst not nationalised (ie 100% control) the Government does have a 70% shareholding. The RBS has recently fallen outside Sectors general High rating definition but for the avoidance of doubt will continue to be used for short term investment purposes, up to 364 days, by Council due to the 70% Government shareholding. The Council will continue to utilise the facilities of The Royal Bank of Scotland Group.

9.2 Investment Strategy

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

	Amount	Maturity	Rate
Bank of Scotland	£3.0M	Oct 09	6.7%
Royal Bank of Scotland	£1.5M	Jan 10	2.7%

Interest rate outlook: Bank Rate started on a downward trend from 5.75% in December 2007 with further cuts of 0.25% in February and April 2008, then 0.5% in October, 1.5% in November, 1% in December and 0.5% in January 2009 to reach 1.5% currently. Further cuts of 1.5% are expected during Q1 2009 It is then expected to stabilise at 0.50% until starting to rise gradually with the first increase in Q2 2010 and then to be back up to 4.00% during Q1 2012.
Councils should therefore avoid locking into longer term deals while investment rates are down at historically low levels.

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.

11. OTHER ISSUES

The Council's banker is NatWest (part of the Royal Bank of Scotland Group). The current relationship has existed since 1998. It is not thought to be materially beneficial to review this contract during the coming year.

9.3 MINIMUM REVENUE PROVISION (an introduction)

1. What is a Minimum Revenue Provision?

Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred and so such expenditure is spread over several years so as to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision, which was previously determined under Regulation, and will in future be determined under Guidance.

2. New statutory duty

Key Assumption 24
Statutory Instrument 2008 no. 414 s4 lays down that: "A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent."

The above is a substitution for the previous requirement to comply with regulation 28 in S.I. 2003 no. 3146, (as amended)

There is no requirement to charge MRP where the Capital Financing Requirement is nil or negative at the end of the preceding financial year

For Rossendale Borough Council the minimum revenue provision that it considers prudent is £85k for 2009/10.

NB - Any share of Housing Revenue Account CFR is not subject to an MRP charge, though in the case of this council, this would not be applicable as it no longer has an HRA.

3. New Government Guidance
Along with the above duty, the Government issued new guidance in February 2008 which requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The Council are legally obliged to "have regard" to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to 'have regard' to the guidance therefore means that: -

1. Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.

2. It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

Option 1: Regulatory Method
Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the adjusted CFR (i.e. adjusted for "Adjustment A") on a reducing balance method (which in effect meant that MRP charges would stretch into infinity). This historic approach must continue for all capital expenditure incurred in years before the start of this new approach. It may also be used for new capital expenditure up to the amount which is deemed to be supported through the SCE annual allocation..

Option 2: Capital Financing Requirement Method
This is a variation on option 1 which is based upon a charge of 4% of the aggregate CFR without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. The CFR is the measure of an authority's outstanding debt liability as depicted by their balance sheet.

Option 3: Asset Life Method.
This method may be applied to most new capital expenditure, including where desired that which may alternatively continue to be treated under options 1 or 2.

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure. There are two useful advantages of this option: -

- Longer life assets e.g. freehold land can be charged over a longer period than would arise under options 1 and 2.
- No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an 'MRP holiday'). This is not available under options 1 and 2.

There are two methods of calculating charges under option 3:

a. equal instalment method – equal annual instalments
b. annuity method – annual payments gradually increase during the life of the asset

Option 4: Depreciation Method

Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3.

The same conditions apply regarding the date of completion of the new expenditure as apply under option 3.

4. Date of implementation

The previous statutory MRP requirements cease to have effect after the 2006/07 financial year. However, the same basis of 4% charge may continue to be used without limit until the 2009/10 financial year, relative to expenditure incurred up to 31/3/2009.

In general it is recommended that authorities should adopt the recommendations contained within the guidance. However, in certain cases the guidance may recommend a useful life period/MRP for expenditure which it may not be considered appropriate to adopt. It is suggested that full details of MRP options/principles adopted should be set out and approved as part of the annual MRP Policy Statement.

The following is a suggested Policy Statement for the Council:

MINIMUM REVENUE PROVISION POLICY STATEMENT 2009/10 (England and Wales)

The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2007/08, and now assesses the MRP in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. .

In accordance with the new guidance the Council has determined that MRP will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method (known as '*Option 3*'). For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

The total opening Capital Financing Requirement (CFR) in 2007/08 was applied to the replacement of the Whitworth Civic Hall in 2006/07. Therefore, within the provisions of the new guidance, this liability and all subsequent liabilities were subject to the above MRP calculation from 2007/08 onwards, based upon the estimated useful life.

Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

APPENDICES

Appendix 1 Comparative Spending Levels

Appendix 2 Interest Rate Forecasts

Appendix 3 Risk Analysis & Report under s.25 LGA 2000

Appendix 4 Glossary of Terms

Appendix 1

Rossendale's Spending for 2008/09 Compared to All Districts and Nearest Neighbours

	Compared to All Districts				Compared to Nearest Neighbours			
	Average £/head	Rossendale £/head	Difference £/head	%	Average £/head	Rossendale £/head	Difference £/head	%
Corporate & Democratic Core	22.04	32.27	10.23	46.4%	23.96	32.27	8.31	34.7%
Unapportionable Central Overheads	0.15	2.77	2.62	1746.7%	-0.19	2.77	2.96	-1557.9%
Local Tax Collection Costs incl CTB Admin	10.89	10.90	0.01	0.1%	12.58	10.90	-1.68	-13.4%
Emergency Planning	0.58	0.35	-0.23	-39.7%	0.42	0.35	-0.07	-16.7%
Other Central Services to the Public	6.12	5.50	-0.62	-10.1%	7.52	5.50	-2.02	-26.9%
Total Central Services	***39.78***	***51.79***	***12.01***	***30.2%***	***44.29***	***51.79***	***7.50***	***16.9%***
Culture & Heritage	5.88	1.70	-4.18	-71.1%	6.15	1.70	-4.45	-72.4%
Sport & Recreation	12.34	8.43	-3.91	-31.7%	14.45	8.43	-6.02	-41.7%
Parks & Open Spaces	10.22	17.02	6.80	66.5%	12.92	17.02	4.10	31.7%
Tourism	1.94	0.62	-1.32	-68.0%	1.55	0.62	-0.93	-60.0%
Cemeteries & Crematoria	0.34	4.58	4.24	1247.1%	0.97	4.58	3.61	372.2%
Licensing	0.82	1.69	0.87	106.1%	0.71	1.69	0.98	138.0%
Community Safety	4.10	3.01	-1.09	-26.6%	5.68	3.01	-2.67	-47.0%
Consumer Protection	0.00	0.00	0.00	0.0%	0.00	0.00	0.00	0.0%
Street Cleansing & Litter	9.83	19.70	9.87	100.4%	10.32	19.70	9.38	90.9%
Waste Collection	22.12	18.87	-3.25	-14.7%	21.92	18.87	-3.05	-13.9%
Waste Disposal	0.30	0.00	-0.30	0.0%	0.00	0.00	0.00	0.0%
Planning	14.59	10.39	-4.20	-28.8%	11.92	10.39	-1.53	-12.8%
Economic & Community Development	4.83	7.50	2.67	55.3%	6.14	7.50	1.36	22.1%
Environmental & Public Health Services	12.29	11.43	-0.86	-7.0%	12.60	11.43	-1.17	-9.3%
Other Services	1.76	0.38	-1.38	-78.4%	1.39	0.38	-1.01	-72.7%
Total Cultural, Environmental and Planning Services	***101.36***	***105.32***	***3.96***	***3.9%***	***106.72***	***105.32***	***-1.40***	***-1.3%***
Highways Functions	1.72	0.41	-1.31	0.0%	2.58	0.41	-2.17	-84.1%
Parking	-7.87	0.98	8.85	-112.5%	-4.71	0.98	5.69	-120.8%
Public Transport incl Concessionary Fares	11.75	12.69	0.94	8.0%	13.07	12.69	-0.38	-2.9%
Other	0.00	0.00	0.00	#DIV/0!	0.00	0.00	0.00	#DIV/0!
Total Highways Roads and Transport Services	***5.60***	***14.08***	***8.48***	***151.4%***	***10.94***	***14.08***	***3.14***	***28.7%***
Homelessness	3.57	2.74	-0.83	-23.2%	1.77	2.74	0.97	54.8%
Discretionary Rent Rebates & Rent Allowances	0.29	0.00	-0.29	-100.0%	0.22	0.00	-0.22	-100.0%
Housing Benefit Administration	7.73	12.24	4.51	58.3%	8.37	12.24	3.87	46.2%
Supporting People	0.23	0.00	-0.23	0.0%	0.40	0.00	-0.40	-100.0%
Other Housing	6.25	8.97	2.72	43.5%	5.01	8.97	3.96	79.0%
Total Housing	***18.07***	***23.95***	***5.88***	***32.5%***	***15.77***	***23.95***	***8.18***	***51.9%***
Unallocated Contingencies / Other Services	0.61	0.24	-0.37	-60.7%	0.09	0.24	0.15	166.7%
Total Expenditure	**165.42**	**195.38**	**29.96**	**18.1%**	**177.81**	**195.38**	**17.57**	**9.9%**
Budget Requirement	**148.50**	**174.01**	**25.51**	**17.2%**	**155.89**	**174.01**	**18.12**	**11.6%**

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 2

INTEREST RATE FORECASTS

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

1. INDIVIDUAL FORECASTS

Sector interest rate forecast – 6 December 2008

	Q/E1 2009	Q/E2 2009	Q/E3 2009	Q/E4 2009	Q/E1 2010	Q/E2 2010	Q/E3 2010	Q/E4 2010	Q/E1 2011	Q/E2 2011	Q/E3 2011	Q/E4 2011	Q/E1 2012
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.75%	2.50%	3.25%	3.75%	4.00%
5yr PWLB rate	2.50%	2.25%	2.15%	2.15%	2.15%	2.45%	2.80%	3.15%	3.65%	3.95%	4.20%	4.45%	4.60%
10yr PWLB rate	3.10%	2.75%	2.55%	2.55%	2.55%	2.85%	3.25%	3.65%	4.15%	4.40%	4.70%	4.75%	4.85%
25yr PWLB rate	4.00%	3.95%	3.95%	3.95%	4.00%	4.15%	4.35%	4.45%	4.60%	4.85%	4.95%	5.00%	5.05%
50yr PWLB rate	3.85%	3.80%	3.80%	3.80%	3.85%	3.90%	4.00%	4.25%	4.40%	4.70%	4.80%	4.95%	5.00%

Capital Economics interest rate forecast –19 January 2009

	Q/E1 2009	Q/E2 2009	Q/E3 2009	Q/E4 2009	Q/E1 2010	Q/E2 2010	Q/E3 2010	Q/E4 2010
Bank Rate	0.50%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
5yr PWLB rate	1.65%	1.45%	1.45%	1.45%	1.45%	1.45%	1.45%	1.45%
10yr PWLB rate	2.65%	2.15%	2.15%	2.15%	2.15%	2.15%	2.15%	2.15%
25yr PWLB rate	4.15%	4.00%	3.80%	3.65%	3.65%	3.65%	3.65%	3.65%
50yr PWLB rate	4.05%	3.95%	3.85%	3.75%	3.75%	3.75%	3.75%	3.75%

UBS interest rate forecast (for quarter ends) – 12 December 2008

	Q/E1 2009	Q/E2 2009	Q/E3 2009	Q/E4 2009
Bank rate	0.50%	0.50%	0.50%	0.75%
10yr PWLB rate	3.75%	4.15%	4.35%	4.65%
25yr PWLB rate	4.25%	4.55%	4.85%	5.05%
50yr PWLB rate	4.30%	4.65%	5.00%	5.25%

2. SURVEY OF ECONOMIC FORECASTS

HM Treasury – December 2008 summary of forecasts of 23 City and 12 academic analysts for Q4 2008 and 2009. Forecasts for 2010 – 2012 are based on 21 forecasts in the last quarterly forecast – November 2008.

BANK RATE FORECASTS		quarter ended		annual average Bank Rate		
	actual	Q4 2008	Q4 2009	ave. 2010	ave. 2011	ave. 2012
Median	2.00%	2.00%	1.00%	3.11%	3.97%	4.49%
Highest	2.00%	4.50%	4.00%	4.70%	5.00%	5.25%
Lowest	2.00%	2.00%	0.50%	1.00%	2.25%	3.00%

Appendix 3

Rossendale Borough Council Budget 2009/10 Risk Analysis and Report Under s25 of the Local Government Act 2000

This analysis is produced in order to:

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

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

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

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

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

The degree to which the Council is exposed to such risks is influenced by a number of factors:

- The robustness of the budget estimates. In preparing the budget a line by line review of spending and income is carried out by finance staff to ensure that budgets reflect the reality of operations and council policies. This process gives some assurance that underlying budget issues are identified and dealt with.
- The achievability of major variations to spending plans such as growth or savings items. Where major change is undertaken it is always possible that there will be some delays in delivery, for example due to delays in filling posts. These issues are dealt with in the costing of the business case for change which should tend to underestimate the achievement of savings and overestimate new costs thus presenting a prudent estimate for inclusion in the budget.
- External factors such as inflation and the downturn in the property market which have an income on costs and income. These issues and how they can be managed are dealt with in the next section of this report.

Turning to the specific risk areas within the Council's budget for 2009/10 the following specific areas of risks have been identified.

Expenditure/Income Heading	Impact	Likelihood	Comments
Employee Costs			
Pay awards	Medium	Medium	The budget assumes 2.5% for pay awards for 2009/10 (2.45% 08/09) and compares to a Treasury guideline of 2%. Any awards continues to be in the context of what is a very light Local Government finance settlement. Given this there is a risk of service disruption due to strike action. A 1% variance equates to a c.£70k
Job Evaluation	High	Medium/High	The impact of Job evaluation is now being absorbed into the Council's funding requirement on a phased basis. The impact on 09/10 has been an additional cost of £140k of which £100k is funded from the Single Status Reserve. An indicative claim has been received regarding back dated equal pay claims however at this stage it is thought that adequate contingency remains within the Single Status Reserve. Senior management posts are currently going through the Job Evaluation process. There is therefore the risk of some additional cost on completion of this exercise.
Vacancies	Medium	High	Vacancies will inevitably occur during the year generating savings. No savings are assumed within the base budget providing some cushion in relation to pay awards. Savings in previous years have been around £100k. Savings in 08/09 were higher but this was due to the effect of organisational changes.
Pension Contributions	High	Low	Employer contribution rates for the three years commencing 1.4.08 have been frozen at previous levels (18.1%). However, this assumed continued good investment performance and some positive benefit from scheme changes. The impact of the global economic downturn and stock market falls has proved past performance assumptions

Expenditure/Income Heading	Impact	Likelihood	Comments
			to be wrong. However, an element of the stock transfer proceeds was earmarked to mitigate pension risks, this has commenced in 08/09 and will continue in 09/10 and is equivalent to a 6.5% additional contribution. A requirement to provide for 1% additional contributions equates to £55k, although any increase in the main contribution rate will not be payable until after 1.4.11
Running Costs			
Energy and Fuel	Medium	High	Prices in the international fuel and energy markets are currently high but have now peaked. Additional inflationary provision has been made in future forecasts. However, energy contracts have been tendered during 2008 and fixed for 2 years.
Repairs and maintenance	Medium	Medium/High	This area of the budget has consistently overspent in the past and is highly demand driven. While the availability of resources in the capital maintenance programme will reduce demand over time the tipping point has yet to be reached. A variance of 10% equates to £22k.
Insurance	Medium	Medium	The Council's insurance portfolio is currently out to tender. There is optimism that we have gone to the market at the point of optimum advantage for the Council. We have therefore anticipated a small reduction but are hopeful of more. Much of the Council's investment programme is aimed at reducing exposure to insurable risks and this is a factor which will be reflected in the procurement process. A 5% variance which is within the forecast range equates to £18k
Contract Costs			
ICT	Low/Medium	Low	The Council has now brought ICT services back in-house with savings as previously reported to Members and reflected in the 09/10 budget
Leisure	High	Medium/High	Options for leisure are now out to public consultation. The proposed budget includes an additional £50k in order to

Expenditure/Income Heading	Impact	Likelihood	Comments
			align with the current options. Should there be a delay in the closure of swimming pools this would be at a cost of £10k per month and therefore equal to c. £120k over a full year. Also additional savings identified within Head Office cost in the event of facility closures maybe delayed. Finally the Trust continues to suffer from competition and will not be immune to the negative impact of the UK economic climate. There is therefore a risk to Head Office savings of c. £20k, c. £40k from market forces and c. £120k depending upon Members final decisions regarding leisure facilities. Total c £180k pa. Members have previously agreed not to use reserves to support core budget requirements. We should therefore look to use other un-earmarked reserves in the event of all facilities remaining open in order to create a transitional funding pool. Possible options are: Area Based Grant , Health Grants (less committed), though such use is at the cost of either delays in or not delivering other Council priorities. Final decisions regarding current options for leisure need to be made on the basis that a sustainable and affordable solution is found for the future. In addition to the current options being consulted on regarding facilities Rossendale Leisure Trust's balance sheet deficit has increased by £100k during 2008. This figure was highlighted to Members in setting the budget for 2008/09. The Trusts' deficit is now £400k and in order for it to remain a going concern it will require an annual support statement from the Council. It is therefore prudent to commence setting aside funds in order to create, within the Council's balance sheet, an earmarked reserve for the Trust's Balance Sheet

Expenditure/Income Heading	Impact	Likelihood	Comments
			Deficit. This reserve can be created over future years from • 50% of in year savings within the Councils own budget for 2008/09 and beyond • Approximately 5 to 10% top slice of current earmarked reserves (c.£100 /£200k) as at 31st March 2009, with the final amount to be agreed by the Accounts' Committee in approving the Councils' annual financial statement. *NB – No transfer of cash will follow, the reserve will sit on the Council's balance sheet*. Should facilities close there will be a need for staff redundancies, although clearly steps will be taken to minimise the numbers affected. Given the current resource deficit within the Trust's Balance sheet, such change cost will realistically fall on the Council. The best estimate of termination costs for one swimming pool and Bacup Leisure Hall is £170k and could be funded from the Council's Change Management Reserve
Revenues Benefits and Customer Contracts	Low	Low	The price of this contract is linked to RPI (Sept 5.0%) and while this index is increasing it is foreseeable. As the contract price is fixed the risk of non-inflationary variations is slight. The contract does contain an incentivisation mechanism which will generate rewards to the contractor. However, this mechanism is capped and reserves to meet roughly three years payments under this mechanism have already been set aside.
Housing Benefits	Very High	Medium/High	Expenditure in this area is just short of £19m and is the largest single item of expenditure in the Council's budget. While this expenditure is fully funded by grant there is an extremely complex

Expenditure/Income Heading	Impact	Likelihood	Comments
			system of rules that determine what is and what is not eligible for grant. Given that a 1% variance on this budget amounts to £190k and with a previous history of variances in this area, significant caution needs to be exercised. With this in mind the Council has established a Budget Volatility Reserve (BVR) to deal with fluctuations in demand led budgets. The BVR is expected to be £280k at 31/03/09, enough to allow for a negative 1.5% variation.
Concessionary Fares	Medium /High	Medium/ High	Pooling arrangement, better understanding of costs following the introduction of electronic NowCards (bus passes) and additional provision within the budget should allow for some stability during 2009/10. The test will come in approximately 2 years time where there are proposals to move Concessionary Travel to the upper tier authorities – this will have significant implications for Rossendale.
Income			
Property Related Fees: Planning Fee, Building Control & Land charges	Medium	Medium/High	Land Charges has seen the largest negative impact from the current property market. As per the 08/09 forecasts income has been reduced by £80k. Building control has also seen a decline in income in recent years and saw its trading account in deficit during 2008. The budget has factored in efficiency savings to bring the trading account to at least break-even. Planning income has not yet seen the negative impact of property market changes experienced by other Council departments. There is risk that incomes may well be adversely impacted upon during 09/10, when in addition to the effects of changes in the rules over what requires planning permission which are likely to be fully reflected in income levels . However, as with all

Expenditure/Income Heading	Impact	Likelihood	Comments
			building related income should the Council begin to see any significant decline in this area it will have to consider its cost base in order to mitigate adverse financial impact. There therefore is some risk in this area of c. £50 to £100k.
Market Rents	Medium	High	Market rents have failed to achieve budget consistently in recent years. This pattern reflects changes in shopping patterns and economic forces which are beyond the Council's control, though in the current climate Markets may be seen as a viable alternative. The Communities Team are currently completing a review of this area; an interim report has already gone to Members. The Budget reflects an above inflationary increase in rents(given the lack of price increases since 2006). While the budget has been adjusted to a more realistic level there still remains a risk in the +/ - 10% range equating to £12k
Waste Collection / Recycling income	Medium	Medium / High	Whether it is income gains or cost of disposal the value of Rossendale's recycling has fallen. The budget reflects a c £100 negative impact. Recent evaluations of waste collection rounds and the impact of H & S requirements and new arrangements with LCC may mean some changes and additional cost to our collection methods, though some, though not all, cost may be contained by re-engineering programmes. That said the is some risk in the budget of c.£100k
Capital Financing and Interest	High	High	The recent dramatic fall in interest rates and future forecasts has resulted in £100k being removed from the core income budget when compared to previous years. Interest gains should now be secure for 09/10 following a number of 12 month investments at strong rates before recent rate falls.
Current	High	High	The Council is not immune to the down

Expenditure/Income Heading	**Impact**	**Likelihood**	**Comments**
Economic Outlook			turn of an economic fall. There will be more pressure on the Council from its customers to do more and resolve local economic issues. As mentioned above the downturn will impact on: property matters, benefits, recycling income and interest rates to mention a few. We should also be wary of one fundamental issue, that of Council Tax collection. As of now we have seen no sign of negative impact on collection rates, but as Council Tax is our biggest source of income we need to keep a careful watch on collection rates and value, over the forth coming months.

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

	Worst Case £000	**Best Case £000**	**Weighted Average £000**
Pay awards	70	0	35
Job Evaluation	0	0	0
Staff Vacancies	0	-100	-50
Pension Contributions	0	0	0
Energy and Fuel	0	0	0
Repairs and Maintenance	22	0	11
Insurance	18	-18	0
ICT Contract	0	0	0
Leisure Contracts	30	0	15
Revenues, Benefits and Customer Contract	0	0	0
Housing Budget Payments	190	-190	0
Concessionary Fares	0	0	0
Planning Fees	100	0	50
Building Control	0	0	0
Market rents	12	0	6
Waste Collection / Recycling	100	0	50
Capital Financing and Interest	36	-36	0
Economic Outlook	100	0	50
Total	**678**	**-344**	**167**

The implication of this range of possible variations is that on a worst case basis the Council needs to maintain reserves of at least £578k to set against the identified risks.

Conclusion and Adequacy of Reserves

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

	£000
Maximum Financial Risk Exposure	678
Minimum level of General risk	750
	1,428
Less est General Reserve @ 31.3.09	850
est Budget Volatility Reserve @ 31.3.09	280
Notional shortfall in available reserves	298

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

	£000
Weighted Financial Risk Exposure	167
Minimum Level of General Reserve	750
	917
Less:	
Est General Reserve at 31.3.09	850
Est Budget Volatility Reserve at 31.3.09	280
Notional surplus in reserves	213

This notional surplus equates to 10% of other forecast earmarked reserve and 1.8% of the likely budget requirement for 2009/10. In this context it would seem reserves are adequate though they only represent on this basis a one year contingency.

It is generally accepted that no budget is without some exposure to risk. However, the position in Rossendale is such that risks have been identified and either provided against or the above considered view taken that the scale of them is manageable. This is reflected in a budget that is both:

- Prudent, that is maintaining a balance between spending commitments and the resources with which to pay for them, and
- Sustainable, that is able to maintain that balance consistently over time.

The degree of risk that remains evident in the budget influences the view which should be taken on the level of reserves which the Council need to maintain, which is the second strand to this statutory advice. The Council's revised financial strategy suggests that Members consider a target range for general reserves of £0.75 to £1.0m. General reserves as at 1st April 2008 were £813k and are expected to be £850k as at 31st March 20098. There Medium Term Financial Strategy identifies other pressures on the horizon (Concessionary travel, pensions, revenue support grant). This therefore means that general reserves should be maintained at the level of £750k with a view to increasing them over the medium term. This level of general reserves, together with other smaller earmarked reserves, will allow a cushion against the sort of risks which have been identified and those unforeseen incidents which may from time to time arise. The Medium Term Financial Strategy includes a forecast of all reserves over the medium term.

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

- The adequacy of General and earmarked reserves to address the risks against which they are held and
- The robustness of the budget for 2009/10

PJ Seddon
Head of Financial Services
February 2009

Appendix 4

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

bp – basis points (in relation to, inter alia, bank base rates)

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

CIPFA – Chartered Institute of Public Finance and Accountancy

CPI – Consumer Price Index

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

DCLG - Department of Communities and Local Government

ECB – European Central Bank

GDP – Gross Domestic Product

IMF – International Monetary Fund

LIBOR – London Inter Bank Offer Rate

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

ODPM – Office of the Deputy Prime Minister (Local Government affairs now reside with the Department of Communities and Local Government [DCLG])

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. .

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

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 £11.7m (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