Medium Term Financial Strategy

2010/11 – 2012/13

Updated – February 2010

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INTRODUCTION

This document is the fifth update of Rossendale Borough Council's Medium Term Financial Strategy (MTFS) and covers the period up to 2012/13.

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, customer satisfaction and value for money services. 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.

Cllr. Brian Essex
Portfolio Holder for Finance and Resources
February 2010

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:

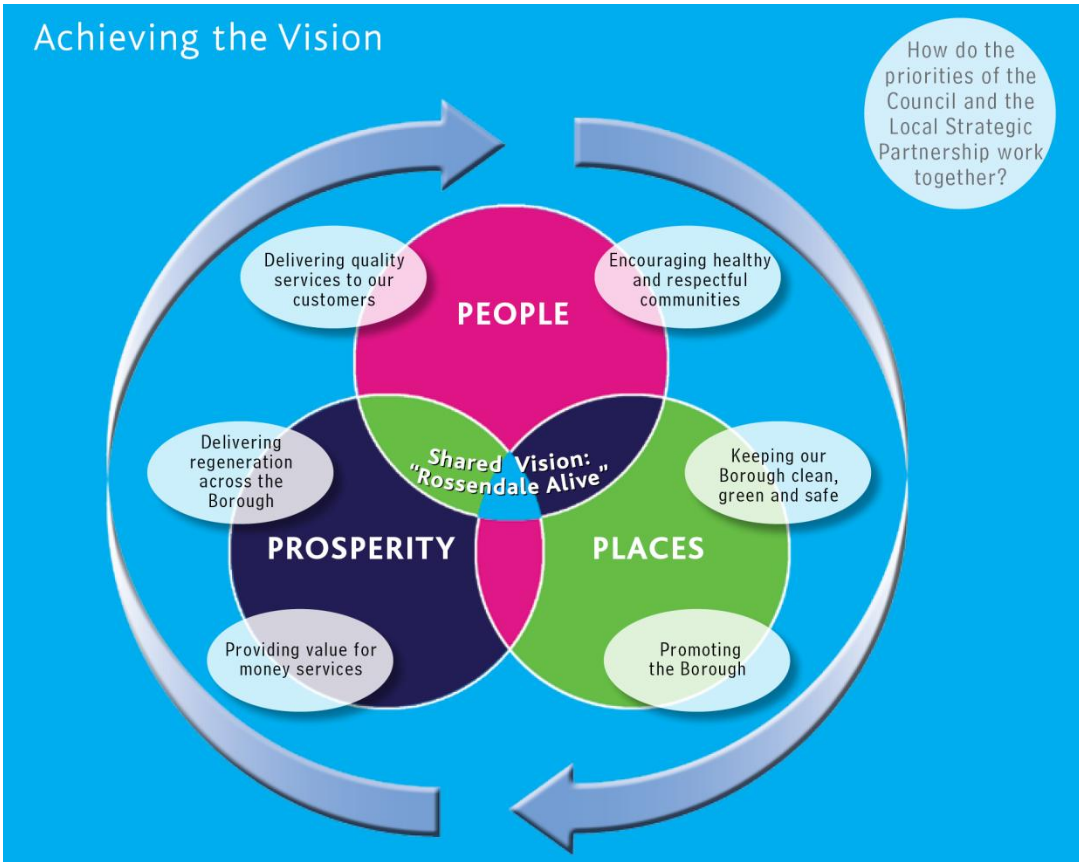
"By 2018, Rossendale will have strong communities with an enhanced environment and heritage. It will be an attractive place to live, where tourists visit and employers invest".

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



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 2009 – 2012 are: Delivering quality services to customers, Delivering regeneration across the borough, Keeping our borough clean, green and safe, Promoting the Borough, Encouraging health and respectful communities and Providing value for money services.

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 and the Multi Area Agreement for Pennine Lancashire . 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 six 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:

- *Delivering quality services to our customers*
- *Delivering regeneration across the Borough*
- *Keeping our Borough clean, green and safe*
- *Promoting the Borough*
- *Encouraging healthy and respectful communities*
- *Providing value for money services*

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 the Strategy is a significant influence in the allocation of financial resources.
The Multi Area Agreement for Pennine Lancashire	Working in partnership with: Blackburn with Darwen, Burnley, Hyndburn, Pendle, Ribble Valley councils to tackle: skills deficits, housing market imbalances, transport and infrastructure projects and economic development
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, this plan currently minimal financially influences 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, Human Resources Strategy, Organisational Development Plan	This collection of strategies look to provide 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, the key element is the existing training budget, together with the innovative and 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.
The 2009 Leisure Review	The 2009 leisure review presented its findings to Members in December 2009. The report recommended what is now referred to as "Option 1". The capital investment required and therefore funding arrangements for Option 1 are an integral part of the budget and medium term financial planning for this authority.

FINANCIAL CONTEXT

About this section

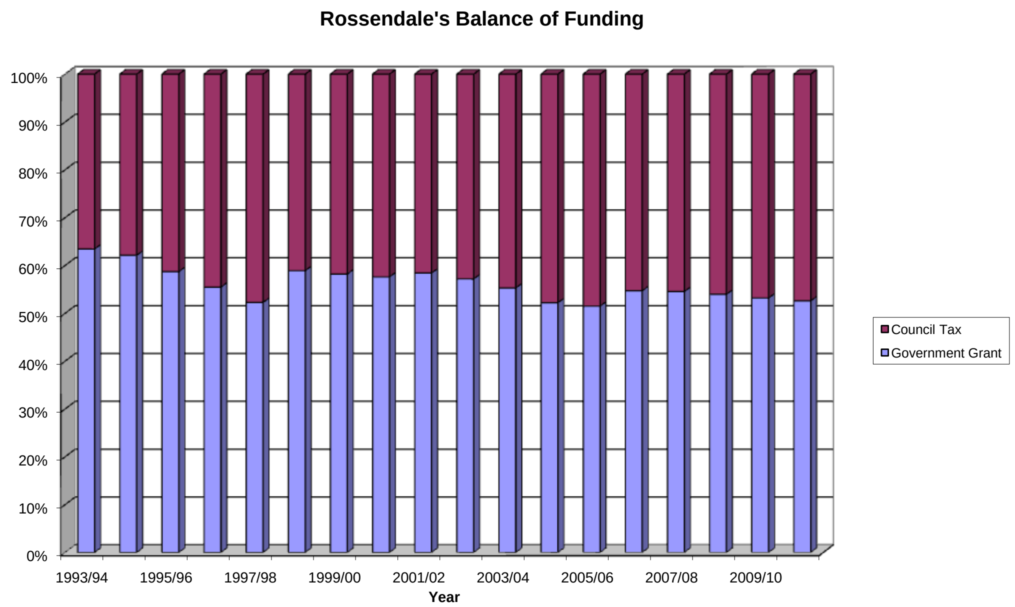
This section briefly gives details of the Council's current and historic levels of resources and the way in which they have been utilised.

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.

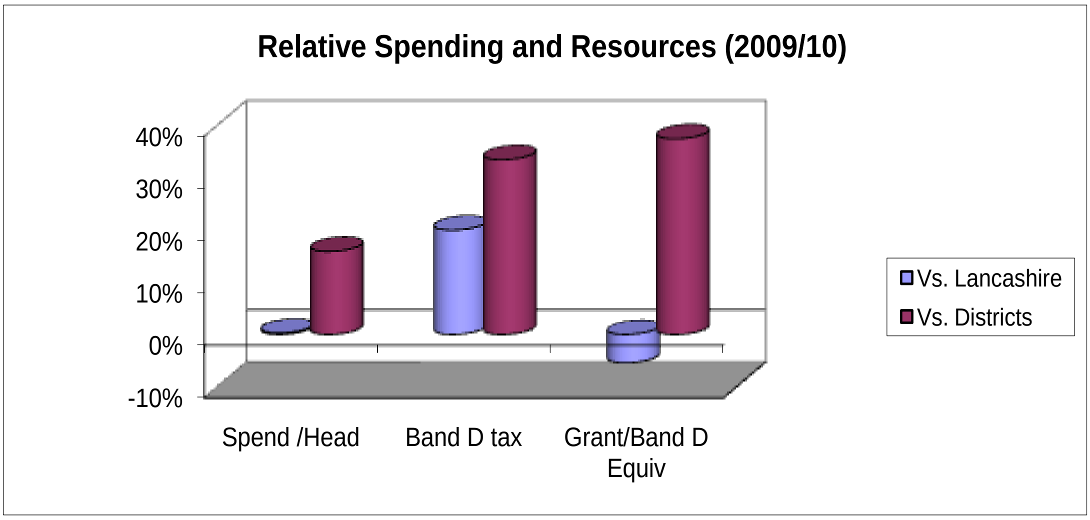
It is, perhaps, helpful to first examine the balance between central and local funding in Rossendale, as this balance is at the heart of much debate over the system of local government finance in England. This is illustrated in the graph below:



(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

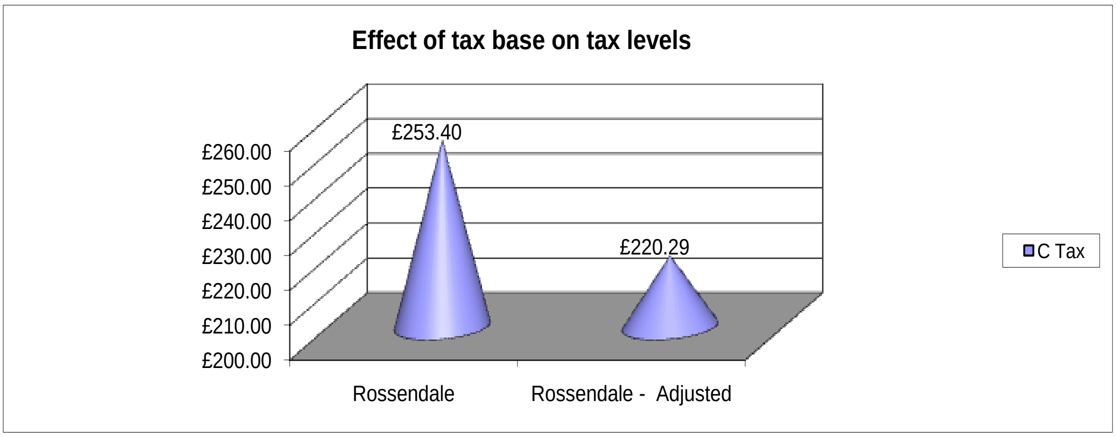
Compared to	Spending £000	Council Tax at Band D £	Grant £000
Lancashire:			
2008/09	+518	+43.45	-239
2009/10	+35	+42.58	-356
All English Districts			
2008/09	+1,989	+61.23	+1,675
2009/10	+1,762	+64.16	+1,700

(Source CIPFA Finance and General Statistics 2009/10)

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 continue 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 tax base. In Rossendale in

2010/11 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 2009/10 if the tax base had mirrored the district average mix of property bandings.

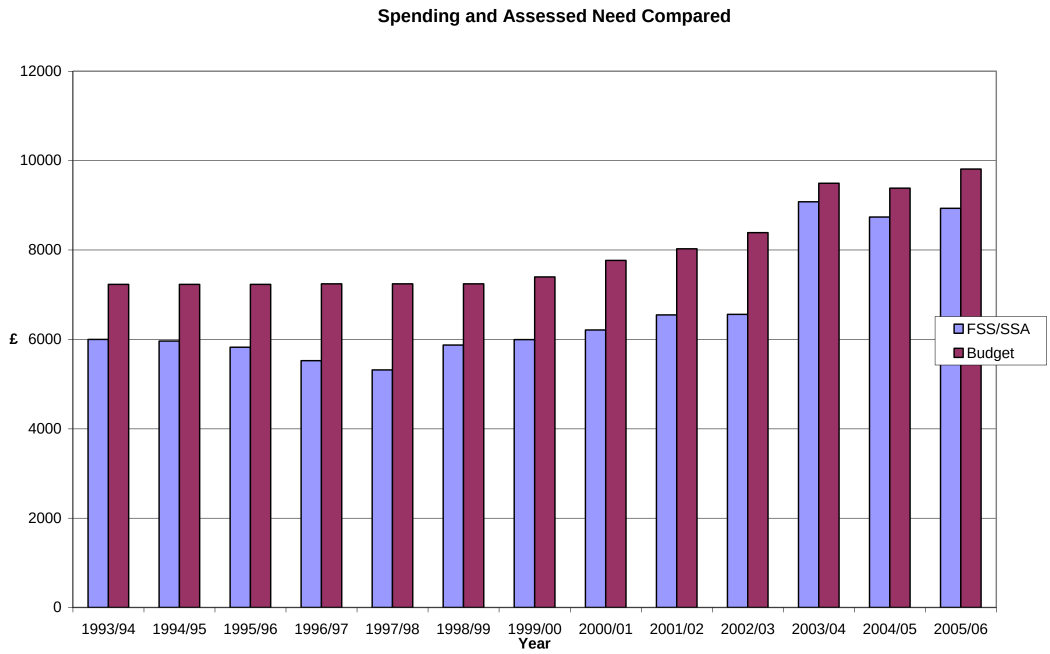


(Source CIPFA - Council Tax Demands & Precepts 2009/10)

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 are 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 factors are it will be much easier for elected members to take a view on how the decisions required will be made, in order to bring spending and taxation more into line with relevant averages.

Appendix 1 sets out service budget spending per head comparators for 2009/10 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 2009/10 data. In total Rossendale's average cost of services per head of population is £24.99 higher than the average district (see Appendix 1 for full detail):

Service Area	Rossendale v Average District		
	£/head variance	% Variance	Total £000 Variance
Corporate & Demographic Core	+10.17	48.4	681
Total Housing Services *In the main Housing Benefit admin.*	+2.25	+12.4	151
Culture and Heritage *This heading includes facilities such as museums, public halls and arts centres.*	-4.03	-66.9	-270
Sport and Recreation *This heading includes both indoor and outdoor leisure facilities*	-3.06	-24.9	-205
Parks and Open Spaces *This heading covers both formal parks and amenity open spaces, but not specific recreational facilities such as football or cricket pitches.*	+8.08	+80.5	+541
Cemeteries and Crematoria *Being the Council's burial and cemetery services*	+3.70	+1,193.5	+248
Street Cleansing and Litter *This heading covers both manual and automated street cleaning operations, emptying of street litter bins etc.*	+9.39	+93.5	+629
Planning *This heading includes Development Control, Building Control and Forward Planning.*	-4.37	-28.4	-293
Parking *This comprises the costs of off street parking, where the average district generates a net income.*	+9.94	-125.7	+666

(Source CIPFA Finance and General Statistics 2009/10)

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.

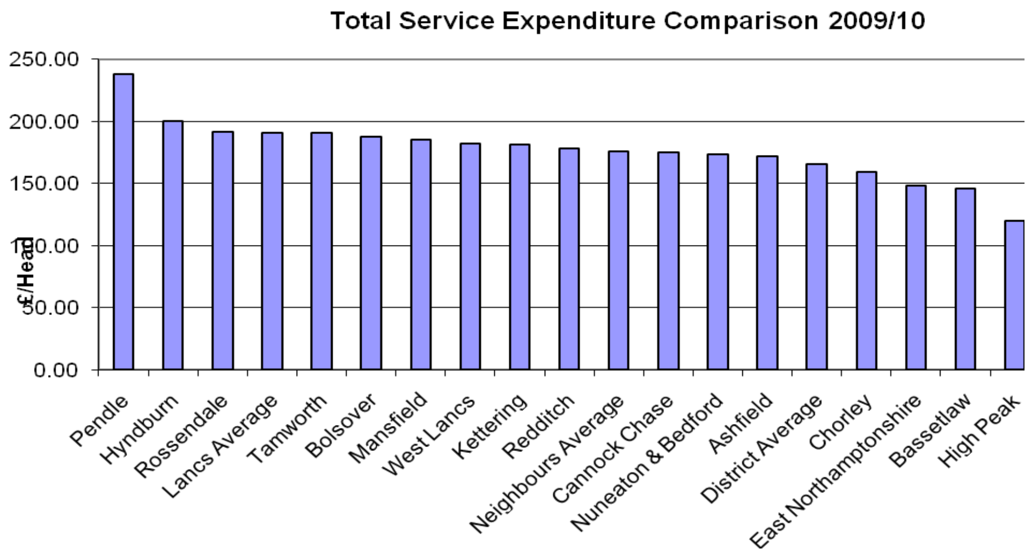
1. In relation to a number of the service areas indicated as spending less than the average the Council has in previous years made specific decisions about their priority for resources. Thus previously, culture and heritage, and planning must generate investment through additional external resources. 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 2009/10 budget data, the best Council within our nearest neighbour cluster (as described by the Audit Commission) spends £7.29 per head on Street Cleanings while Rossendale spends the highest at £19.43, with an average spend across all the neighbours of £10.99 (£12.31 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 continued into 2009 in partnership with Lancashire districts in order to understand more fully the Council's operating cost base.

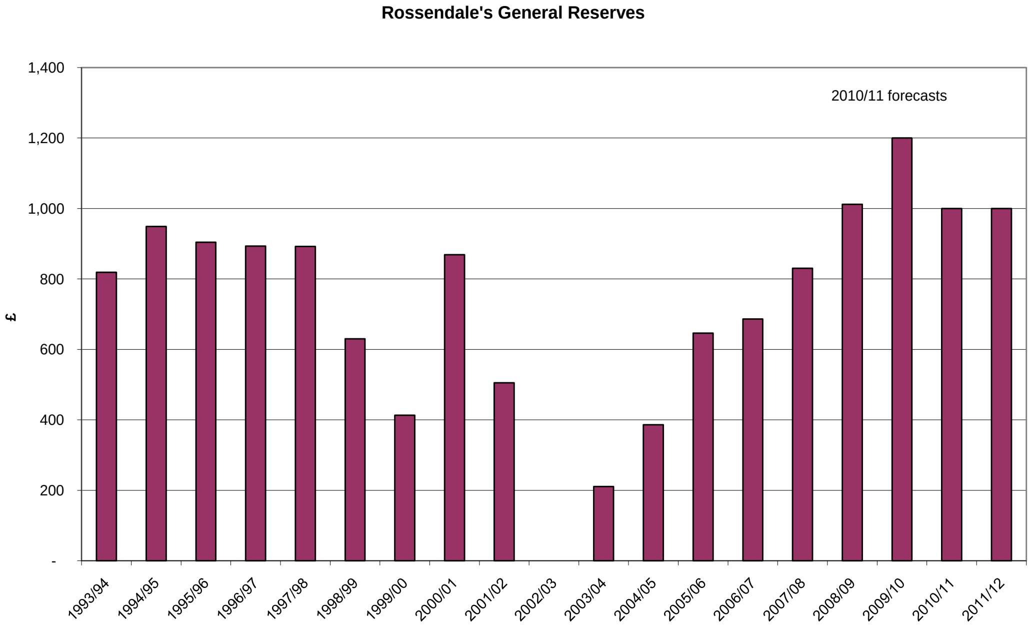
Thus it is possible to see that some of the differences in service spending levels between Rossendale and the average can be sensibly explained and some do, in fact, represent a conscious expression of policy priorities. Indeed compared to the Council's 15 nearest neighbours net revenue expenditure continues 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 2009/10)

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)

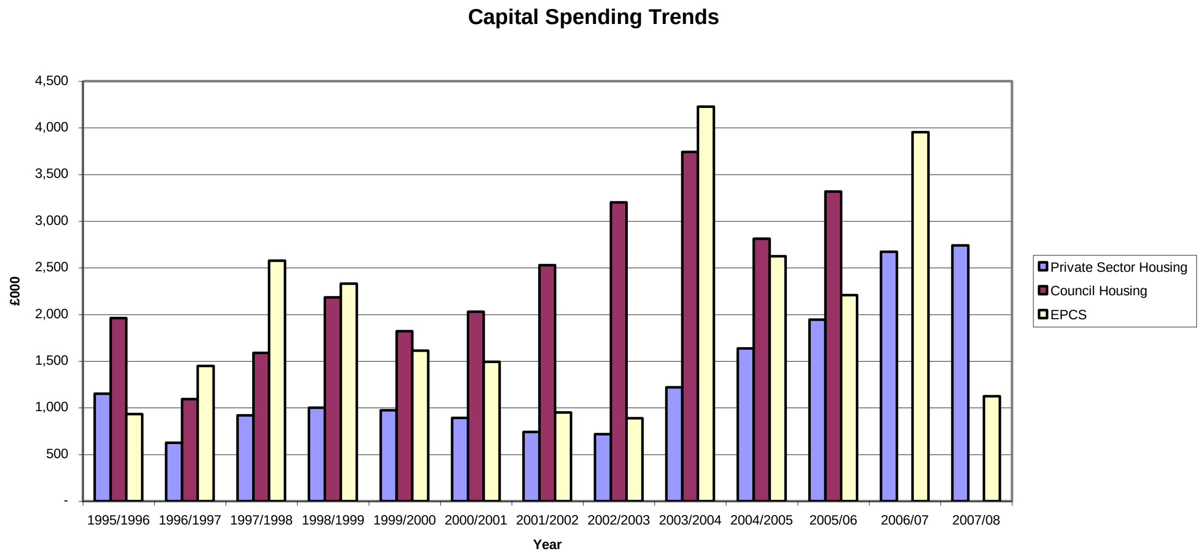
The maintenance of reserves sufficient to help the Council manage the risks it faces is an important measure of financial stability for the organisation and the above graph makes evident that significant progress has been made, in achieving this, in recent years. Policies set out elsewhere in this strategy 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 Disabled 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. The 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. During 2009/10 we have used this revenue stream to re-tender and capitalise on low interest rates to support a new vehicle fleet.

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, as 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 now 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?*
4. *To what extent do members wish to commit this authority to external borrowing to support a capital investment programme?*

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's outcomes

July – September

Assessment of Needs
Financial Forecasts
Consultation on priorities
Corporate Plan

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

Feedback Consultation
Allocate Resources
Draw up draft balanced Budget

January-March

October - December

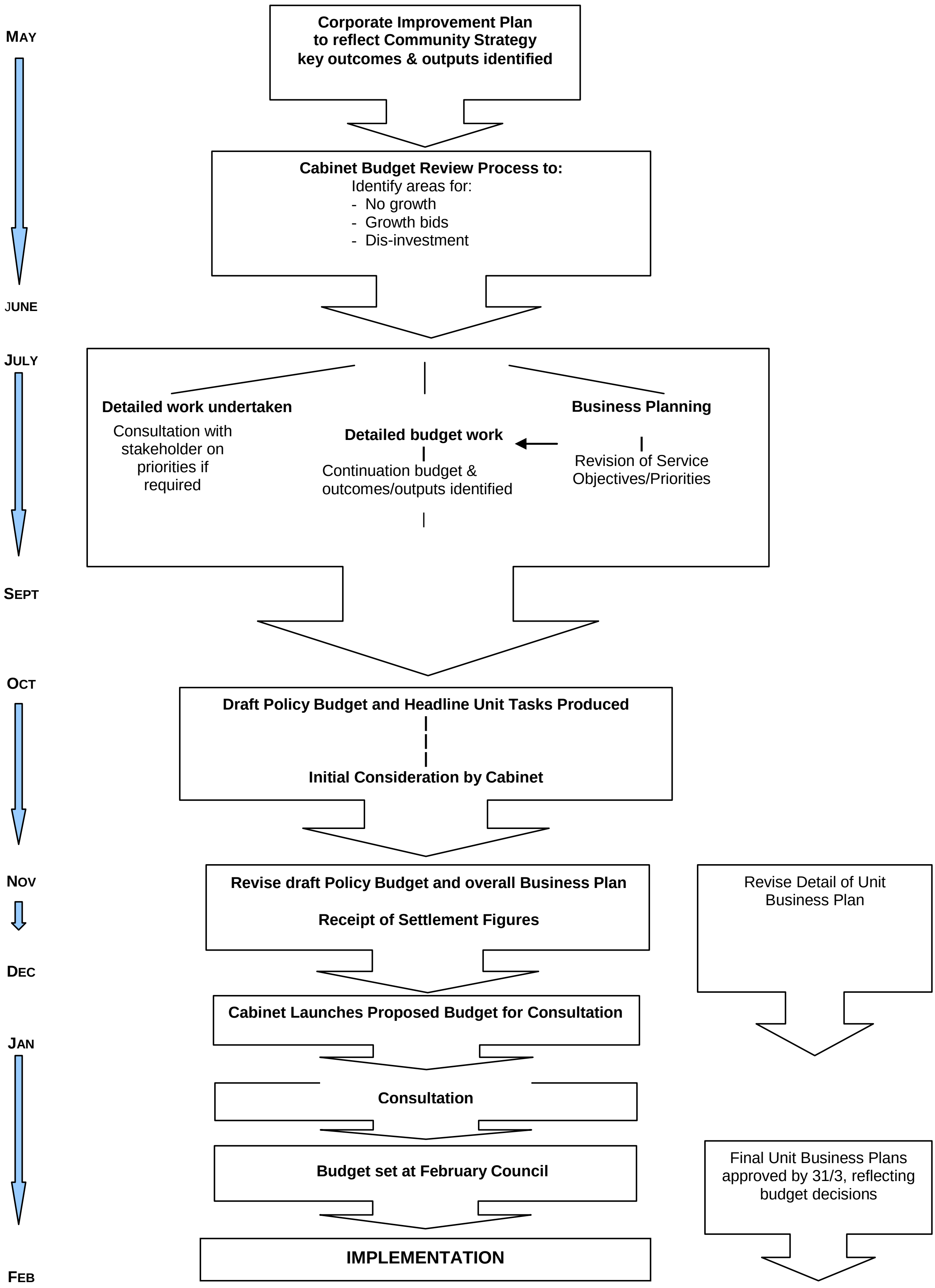
Key elements throughout this process are:

- 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 was further developed during 2008 in the form of a Sustainable Community Strategy. In particular this presents the opportunity for the Council to determine areas which are not priorities and which will be examined in terms of disinvestments over the course of the planning period.

Medium Term Financial Strategy 2010/11 – 2012/13



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) and the extent of future support grants (both revenue and capital).

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.

- Services 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 performance, 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.

	20011/12 £000	2012/13 £000	2013/14 £000
Expenditure (less direct grants)	*14,927*	*14,958*	*15,009*
Income	*(3,006)*	*(3,050)*	*(3,096)*
Initial Budget Requirement	**11,921**	**11,908**	**11,913**
Inflation			
Pay	265	201	234
Prices / Volume	92	104	69
Income	-45	-45	-46
Technical, Volume & Waste changes	100	100	100
Waste issues	200		
Concessionary Travel	400		
Savings target to balance resources	-1,025	-355	-336
Inflated Budget Requirement	**11,908**	**11,913**	**11,934**
% Change in Spending	*-0.1%*	*0.0%*	*0.2%*

- **Pay –** Pay Awards going forward will be around 0.5 to 1.5% over the 3 year period. 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 and thereafter by a further 1.5% each year. 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 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 £200k within 2011/12 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, minus 3% assumed for each year commencing 11/12 onwards.

- **Fees and Charges** - increased by a composite index, comprising 2/3 pay, 1/3 prices, giving increases of c.1.5%. 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.

- Impacts 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.

- Impact and future of the ELEVATE programme beyond 2010/11.

In particular the way in which the various agendas 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 minus 3% in each of the following years – a reflection of the current economic outlook and the overall deficits within public finances.

There are other much smaller general sources of government grant which have previously been or will be received and will be 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. The Council has made a bid of £250k to support Leisure facilities

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 real 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.

ELEVATE programme: funding has been agreed and secured for 2010/11 but not beyond this date. Not only does the programme support major capital works within Bacup and Stacksteads, but the programme also supports revenue programmes within regeneration and communities.

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

Key Assumption 3

Total Formula Grant will decline in cash terms over the next 3 year settlement by 3% each year.

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 has in previous years pooled its resources with other Lancashire TCAs in order to mitigate any negative financial impact.

Key Assumption 5

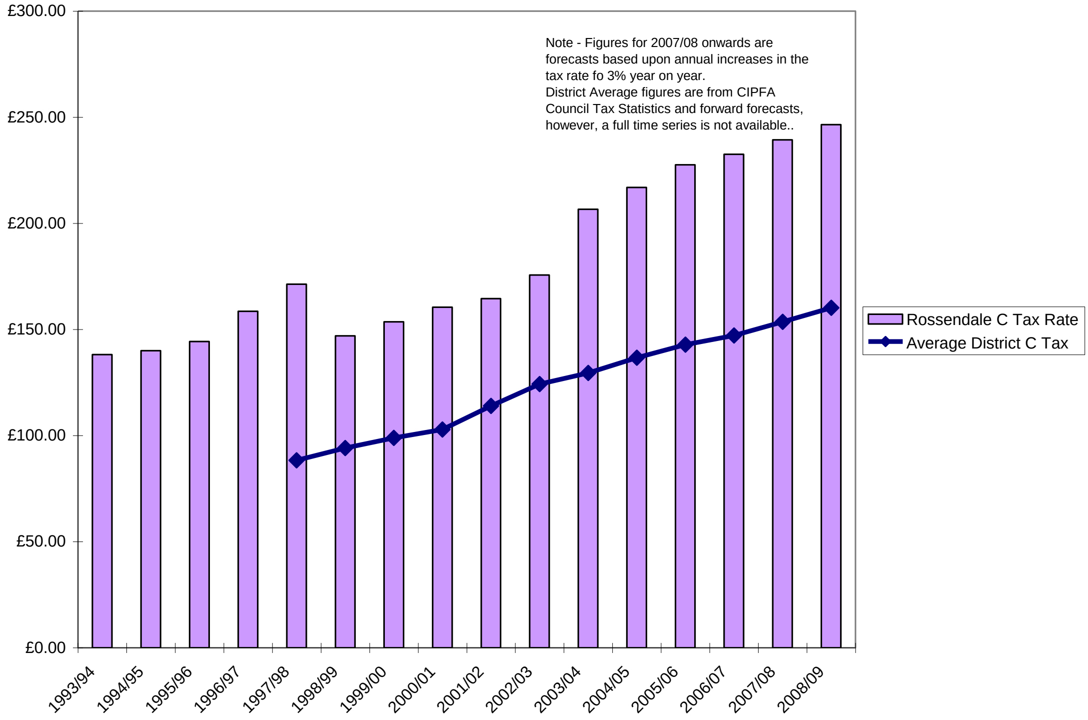
Any proceeds from the Local Authority Business Growth Incentive scheme will be earmarked for future economic regeneration projects (subject to exceptional corporate pressures) and will not affect underlying expenditure.

Key Assumption 6

Any proceeds from the Local Area Agreement Reward Grant will be earmarked within a dedicated provision for the priorities of Council in association with the Local Strategic Partnership.

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 2010/111 and beyond 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 0.1 to 0.3% per annum.

In terms of collection it is true that the Council's performance on Council Tax collection has improved steadily over the past number of years. 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 0.1 to 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 Councils including Rossendale will do this twice a year, when the budget is set, and when the outturn is reported, as these are the points in the reporting cycle when resource allocation is possible. This strategy allows the Council to put in place a framework of rules within which to operate its use of reserves.

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

***Change Management Reserve* –** To provide resources to support the costs of change within the organisation, such as: professional 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.

***Leisure Reserves* –** Set aside from top slicing other reserves and the 2009 Vat gains to provide for contributions to the deficit within Rossendale Leisure Trust Limited and potential new sports facilities within Rossendale.

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 the Council will be able to generate some budget savings on an annual basis. Reserves are therefore forecast as follows:

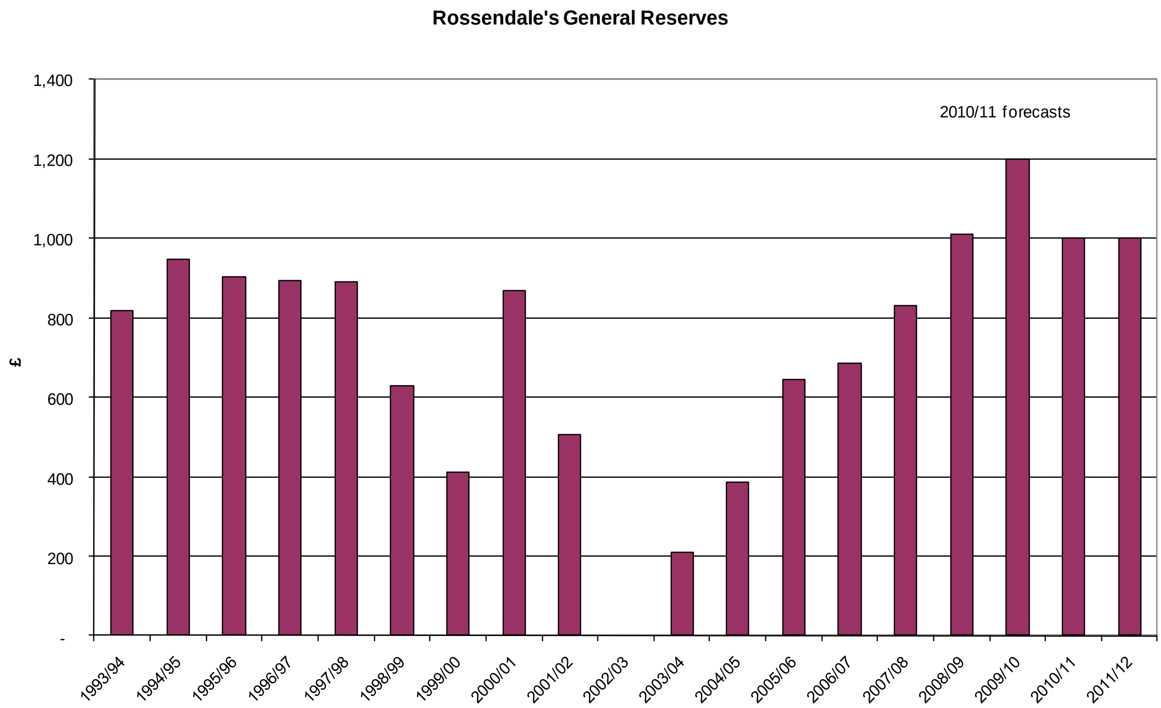
	Actual Balance at 1st Apr 09 £000	Forecast Balance at 31st Mar 10 £000	Forecast Balance at 31st Mar 11 £000	Forecast Balance at 31st Mar 12 £000	Forecast Balance at 31st Mar 13 £000
General Reserves	1,012	1,238	1,000	1,000	1,000
Earmarked Reserves:					
Change Management	392	336	336	336	336
IT Reserve	83	83	83	83	83
Single Status	530	430	360	320	320
Budget Volatility Reserve	284	284	284	284	284
Economic Regeneration	879	551	505	459	446
Performance Reserve	65	65	55	45	35
Pension Fund	356	356	356	356	356
Health & Wellbeing	156	78	-	-	-
Regulatory Reserve	397	340	187	70	45
Leisure Services	186	186	186	186	186
Leisure Facilities	661	661	661	-	-
Contaminated Land	98	98	98	98	98
Total Earmarked	4,087	3,468	3,111	2,237	2,189
Total Reserves	**5,099**	**4,706**	**4,111**	**3,237**	**3,189**

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 and leisure. These actions together with the delivery of the Improvement Programme will reduce the Council's financial risk exposure in relation to its General Reserves over time.

The Council's 2009/10 policy is to maintain General Reserves (or balances) at approximately £1.0m. 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 5% 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 the general settlement, 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 be maintained at a minimum level of £1.0m as illustrated below:

	Cash Sum £000	As % of 2010/11 Budget Requirement
Minimum Level of General Balances	1,000	8.4%
Level of Balances Reflected in 2009/10 Budget	850	7.2%

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 £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:

Medium Term Financial Strategy 2010/11 – 2012/13

	20011/12 £000	2012/13 £000	2013/14 £000
Forecast Budget Requirement	12,933	12,268	12,270
Head room for Growth	0	0	0
Requirement for savings	(1,025)	(355)	(336)
Forecast Resporces	11,908	11,913	11,934

Resources based on previous MTFS assumptions of 3% Council Tax increase in 10/11. This equates to £165k in each of the three years above.

Clearly it may 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.

However, the scale of savings now likely to be required moves the Council to a different level and 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 £1.7m of cost reductions over the 3 year period 2011/12 and 2013/14 be agreed, with options to achieve this being identified for consideration by members during 2010/11.

The scale of savings required the organisation needs to make a corporate wide review of both savings opportunities and the level of service provision.

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 both lower and non-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, as previously 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 £1.7m for the years 20011/12 and beyond will be identified for consideration during 2010/11. 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).*
- *General affordability amongst other cost pressures*

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 2010/11 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 1%. However, priority will be given to health, education and military staff. Provision of 0.0 to 1.5% has therefore been made over the 4 year period. 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. £70k 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% (plus 1.5% in each of the following years), 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 2009/10 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 2009/10 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 tier 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 2009/10 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.

- Government Formula Grant for the three years commencing 2011/12 assumes a 3% annual reduction

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.

	2010/11 Total £000	2011/12 Total £000	2012/13 Total £000
Customer Services & e-Government	0	0	0
SS & NS	480	450	280
Communities & Partnership	15	15	15
Regeneration	30	30	30
Corporate	205	205	205
Housing	2,955	353	353
Total	**3,685**	**1,053**	**883**

The approved capital programme over recent years has begun to address a number of historical maintenance issues involving amongst other things Council buildings, car parks, playgrounds, cemeteries, operation's vehicles 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 £404k as at 31st March 2013. 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 if required.

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 permanent civic Rawtenstall presence in the long term, although some capital receipts have been earmarked for this significant expenditure, 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 2009/10 to accommodate additional purchased vehicles funded by current low level borrowing rates.

- 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, refuse collection and the resurfacing of paths etc in parks in order to reduce the likelihood of trips, slips and falls which generate insurance claims.

- Most significantly, the above capital forecast does not include the conclusions of the 2009/10 Leisure Review (known as option H). The assumptions are that this capital spend will be self financing. Final approval for capital investment will be made by Council as part of the 20010/11 budget setting.

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 continue to be taken up with rolling programmes of repair, renewal and enhancement of the Council's assets.

Capital Resources

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

	Total £000	2010/11 Total £000	2011/12 Total £000	2012/13 Total £000
Grants / Third Party Support				
ELEVATE	1,906	1,906	0	0
DFGs	1,059	353	353	353
Capital Grants	525	525	0	0
	3,490	**2,784**	**353**	**353**
RBC Receipts				
Right To Buy Receipts	100	100	0	0
VAT Shelter rev' contribution after pension payment	510	170	170	170
General surplus asset disposals	300	100	100	100
RBC Useable Capital Receipts b/fwd	817	817	0	0
Total	**5,217**	**3,971**	**623**	**623**

The above table reflects an estimate of capital grants by which the Government will support District Council capital expenditure from 2010/11 onwards (in particular Disabled Facilities Grants [DFGs]). No forecast has been made for ELEVATE or other Capital grants after 2010/11 as the amounts are unknown and uncertain. The future capital expenditure programme will be adjusted accordingly to reflect grants received. In particular ELEVATE funding for 2010/11 is secure but the following years are uncertain.

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 2009/10 for 2010/11 to a maximum of £4.245m being £255k below previous forecast 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 and sustainable. Given the overall revenue budget forecast it seems unlikely that it will be possible to fund significant borrowing unless resources are diverted from elsewhere (eg: transfer of revenue leasing to PWLB, internal borrowing over the life of the assets acquired or other savings generated).

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 and sustained 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 continue 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 2009/10 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	5,217
Less: Forecast Spending	5,621
Resources deficit (2009/10 – 2011/12)	**(404)**
Other aspirations and estimated cost:	
1 – Single site accommodation (no assumption re capital receipts)	4,200
2 – Leisure facilities (less Facilities Provision)	4,100
3 – Repayment of CFR (technical)	2,600
Deficit in Resources Available for Other Investment	**11,304**

As previously stated the Capital programme is at its maximum, subject to additional capital receipts being generated. The Council needs to consider carefully 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 (eg to support borrowing) 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 the 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.£400k. 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 forthcoming months and years, and make the final statement above even more important.

APPENDICES

1 Comparative Spending Levels

2 Risk Analysis & Report under s.25 LGA 2000

3 Glossary of Terms for MTFS and Treasury Strategy

Medium Term Financial Strategy 2009/10 – 20011/12

Appendix 1

Rossendale's Budget Spending for 2009/10 Compared to All Districts and Nearest Neighbours

	Compared to All Districts				Compared to Nearest Neighbours			
	Average £/head	Rossendale £/head	Difference £/head	%	Average £/head	Rossendale £/head	Difference £/head	%
Corporate & Democratic Core	21.02	31.19	10.17	48.4%	21.38	31.19	9.81	45.9%
Unapportionable Central Overheads	2.11	2.40	0.29	13.7%	2.50	2.40	-0.10	-4.0%
Local Tax Collection Costs incl CTB Admin	10.60	10.31	-0.29	-2.7%	12.24	10.31	-1.93	-15.8%
Emergency Planning	0.62	0.36	-0.26	-41.9%	0.29	0.36	0.07	24.1%
Other Central Services to the Public	4.23	6.55	2.32	54.8%	4.94	6.55	1.61	32.6%
Total Central Services	***38.58***	***50.81***	***12.23***	***31.7%***	***41.35***	***50.81***	***9.46***	***22.9%***
Culture & Heritage	6.02	1.99	-4.03	-66.9%	4.39	1.99	-2.40	-54.7%
Sport & Recreation	12.27	9.21	-3.06	-24.9%	15.81	9.21	-6.60	-41.7%
Parks & Open Spaces	10.04	18.12	8.08	80.5%	10.31	18.12	7.81	75.8%
Tourism	1.82	1.36	-0.46	-25.3%	1.50	1.36	-0.14	-9.3%
Cemeteries & Crematoria	0.31	4.01	3.70	1193.5%	0.36	4.01	3.65	1013.9%
Licensing	0.70	1.70	1.00	142.9%	0.73	1.70	0.97	132.9%
Community Safety	4.01	3.01	-1.00	-24.9%	5.55	3.01	-2.54	-45.8%
Consumer Protection	0.00	0.00	0.00	0.0%	0.00	0.00	0.00	0.0%
Street Cleansing & Litter	10.04	19.43	9.39	93.5%	10.99	19.43	8.44	76.8%
Waste Collection	22.86	19.15	-3.71	-16.2%	22.56	19.15	-3.41	-15.1%
Waste Disposal	0.20	0.00	-0.20	0.0%	0.08	0.00	-0.08	0.0%
Planning	15.37	11.00	-4.37	-28.4%	12.38	11.00	-1.38	-11.1%
Economic & Community Development	4.13	5.58	1.45	35.1%	9.03	5.58	-3.45	-38.2%
Environmental & Public Health Services	12.19	10.27	-1.92	-15.8%	13.30	10.27	-3.03	-22.8%
Other Services	1.93	0.37	-1.56	-80.8%	0.69	0.37	-0.32	-46.4%
Total Cultural, Environmental and Planning Services	***101.89***	***105.20***	***3.31***	***3.2%***	***107.68***	***105.20***	***-2.48***	***-2.3%***
Highways Functions	1.61	0.45	-1.16	0.0%	1.70	0.45	-1.25	-73.5%
Parking	-7.91	2.03	9.94	-125.7%	-3.12	2.03	5.15	-165.1%
Public Transport incl Concessionary Fares	12.90	12.95	0.05	0.4%	13.98	12.95	-1.03	-7.4%
Other	0.01	0.00	-0.01	-100.0%	0.00	0.00	0.00	0.0%
Total Highways Roads and Transport Services	***6.61***	***15.43***	***8.82***	***133.4%***	***12.56***	***15.43***	***2.87***	***22.9%***
Homelessness	3.85	2.07	-1.78	-46.2%	1.98	2.07	0.09	4.4%
Discretionary Rent Rebates & Rent Allowances	0.24	0.00	-0.24	-100.0%	0.12	0.00	-0.12	-100.0%
Housing Benefit Administration	7.65	12.43	4.78	62.5%	7.25	12.43	5.18	71.4%
Supporting People	0.27	0.00	-0.27	0.0%	0.27	0.00	-0.27	-100.0%
Other Housing	6.14	5.90	-0.24	-3.9%	5.16	5.90	0.74	14.3%
Total Housing	***18.15***	***20.40***	***2.25***	***12.4%***	***14.78***	***20.40***	***5.62***	***38.0%***
Unallocated Contingencies / Other Services	0.03	-0.29	-0.32	-1066.7%	-0.62	-0.29	0.33	-53.2%
Total Expenditure	**165.26**	**191.55**	**26.29**	**15.9%**	**175.75**	**191.55**	**15.80**	**9.0%**
Budget Requirement	**150.85**	**175.84**	**24.99**	**16.6%**	**157.49**	**175.84**	**18.35**	**11.7%**

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

Pendle	Lancashire
Hyndburn	Staffordshie
Tamworth	Derbyshire
Bolsover	Nottinghamshire
Mansfield	Lancashire
West Lancs	Northamptonshire
Kettering	Worcestershire
Redditch	Staffordshire
Cannock Chase	Warwickshire
Nuneaton & Bedford	Nottinghamshire
Ashfield	Lancashire
Chorley	Northamptonshire
East Northamptonshire	Nottinghamshire
Bassetlaw	Derbyshire
High Peak	

Appendix 2

Draft - Rossendale Borough Council Budget 2010/11 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 2010/11 the following specific areas of risks have been identified.

Expenditure/ Income	Impact	Likelihood	Comments
Employee Costs			
Pay awards	Medium	Medium	The budget assumes 0.0% for pay awards for 2010/11 (1.00% 09/10) and compares to a Treasury guideline of 1%. Any award 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. £70k of this year's pay is funded from the Single Status Reserve (£100k in 09/10). 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.
Vacancies	Medium	High	Vacancies will inevitably occur during the year generating savings. This year savings have been assumed within the base budget of £tbc. Savings in previous years have been around £100k pa.
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 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 10/11 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. The MTFS has therefore assumed an increase in employer rates after this date.

Expenditure/ Income	Impact	Likelihood	Comments
Running Costs			
Energy and Fuel	Medium	High	Prices in the international fuel and energy markets remain high but have now peaked. Energy contracts were tendered during 2008 and fixed for 2 years however we have taken up our option to re-enter into contract negotiations with a view to reducing costs.
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 was tendered during 08/09. This exercise resulted in savings with annual costs now part of a 3 year long term agreement until March 2012
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 10/11 budget
Leisure	High	Medium/ High	The provision of Leisure facilities as been one of the dominant topics during 2009/10. It has been assumed that: • the financial costs relating to Bacup Leisure Hall will cease during the summer of 2010 • the council will have c.£1m of earmarked capital resources • the business plan will generate revenue savings to support £1.5m.
Revenues Benefits and Customer Contracts	Low	Low	The price of this contract is linked to CPI (Sept 09 +1.14%). As the contract price is fixed the risk of non-inflationary variations is slight. The contract does contain an incentive mechanism which will generate rewards to the contractor. However, this mechanism is capped and reserves to meet roughly three years maximum payments under this mechanism have already been set aside.
Housing	Very	Medium/	Expenditure in this area is just short of £19m

Expenditure/ Income	Impact	Likelihood	Comments
Benefits	High	High	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 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 £284k at 31/03/10, 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 2010/11. The test will come in approximately 1 years time where there are proposals to move Concessionary Travel to the upper tier authorities – this may have significant implications for Rossendale.
Income			
Property Related Fees: Planning Fee, Building Control & Land charges	Medium	Medium/ High	Land Charges and Building Control saw significant decline in income during 2008/09 and 2009/10. The budget for 10/11 assumes the reduced levels. Planning income saw a significant drop in the 1st quarter of 2009. 2009/10 outturn is expected to have a £130k negative budget variance. 2010/11 incomes have therefore been similarly adjusted downwards.
Market Rents	Medium	High	Reflects the previous decisions by Members on pricing policies.
Waste Collection / Recycling income	Medium	Medium / High	Total budgeted recycling income: • Paper £25/tonne (compares to £40). Total income £70k • Glass, cans, plastics £2 / tonne (contracted). Total income c £7k
Capital Financing and Interest	High	High	Our capacity to make interest gains has significantly reduced during 2009/10 and is set to continue into 2010/11. Interest receipts have been based on forecast bank base rates plus 0.3%

Expenditure/ Income	Impact	Likelihood	Comments
Current Economic Outlook	High	High	The Council is not immune to the down turn of an economic fall. Current announcements indicate the UK is emerging from recession, however, pressure remains on the Council from its customers to do more and to resolve local economic issues. As mentioned above the 2008/09 downturn has impacted negatively on: property related receipts, benefits, recycling income and interest rates to mention a few. We continue to 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 forthcoming 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	-50	-25
Pension Contributions	0	0	0
Energy and Fuel	0	0	0
Repairs and Maintenance	22	0	11
Insurance	0	0	0
ICT Contract	0	0	0
Leisure Contracts	0	0	0
Revenues, Benefits and Customer Services Contract	20	-42	-11
Housing Budget Payments	190	-190	0
Concessionary Fares	0	0	0
Planning Fees	0	0	0
Building Control	0	0	0
Market rents	12	0	6
Waste Collection / Recycling	100	0	50
Capital Financing and Interest	36	-36	0
General Economic Outlook	100	0	50
Total	**550**	**-318**	**116**

The implication of this range of possible variations is that on a worst case basis the Council needs to maintain reserves of at least £550k 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	550
Minimum level of General risk	1,000
	1,550
Less:	
est General Reserve @ 31.3.09	1,027
est Budget Volatility Reserve @ 31.3.10	284
Notional deficit in available reserves	239

However, it is also 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	116
Minimum Level of General Reserve	1,000
	1,116
Less:	
est General Reserve at 31.3.09	1,027
est Budget Volatility Reserve at 31.3.09	284
Notional surplus in reserves	195

This notional surplus equates to 6% of other forecast earmarked reserves and 1.6% of the likely budget requirement for 2010/11. 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 continue to plan for general reserves of £1.0m. General reserves as at 1st April 2009 were £942k and are expected to be £1,238k as at 31st March 2010. The 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 c. £1m 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 2010/11

PJ Seddon
Head of Financial Services
February 2010

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 that 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 suggests, 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 £11.9m (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