REPORT

FYLDE BOROUGH COUNCIL

FINANCE	**COUNCIL**	**3rd MARCH 2009**	

MEDIUM TERM FINANCIAL STRATEGY UPDATE, INCLUDING GENERAL FUND, CAPITAL PROGRAMME AND TREASURY MANAGEMENT FOR 2008/09 – 2012/13

Public item

This item is for consideration in the public part of the meeting.

Summary

1.1 Attached is the Council's Medium Term Medium Term Financial Strategy (MTFS) which sets out the Council's Strategy for the five years 2008/09 to 2012/13. The report is in a new format which is designed to provide greater linkage between the Medium Term Financial Strategy and the achievements of the Council's corporate policy priorities.

1.2 This report covers the Council's Revenue Budget and Forecast, Capital Programme 2008/09 to 2012/13 and the Treasury Management Strategy.

1.3 This report has been updated for the latest Concessionary Fares position.

1.4 In his letter of 9th December 2008 the Minister for Local Government stated " the Government expects the average Council Tax increase in England to be substantially below 5% in 2009/10 and will not hesitate to use our capping powers as necessary to protect Council Tax payers from excessive increases, including requiring authorities to re-bill if that proves necessary. This message applies to all classes of authority – including Police and Fire Authorities".

1.5 In the light of the above should Council increase Council Tax over the 5% level the chances of the Council being capped are significant. If the Council was capped the impact at the minimum would be:-

- the level of Council Tax would be prescribed by the Government; and,
- the Council would be faced with the billing costs of up to £100,000.

1.6 In addition, setting a Budget that the Secretary of State regards as excessive would increase the possibility that he may consider the Council has failed to secure "continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. This could lead to the Government exercising its powers of intervention. These are a range of Government powers which at their most extreme would involve the appointment of a Commissioner to run the authority, but more likely would be some for of intervention involving an Improvement Board to oversee an Improvement Plan which would be monitored very closely. The Constitution and the powers of the Improvement Board would be at the discretion of the Minister for Local Government.

Recommendations

At its meeting of the 19th February 2009 Cabinet recommended to Council to approve:

(i) The Revenue Budget and forecast for 2009/10 (including the Draft Fees & Charges Schedule for 2009/10) as set out in Appendix C

(ii) The Savings Options as set out in Appendix D;

(iii) Growth Options as set out in Appendix E.

(iv) The Revised Estimates for 2008/09 of £10,979,285 and the General Fund Budget for 2009/10 of £11,113,930 which include the amendments listed in Appendix B; and,

(v) An increase of Council Tax of 4.99% with a Band D of £177.44 for Council Tax 2009/10 excluding Parish Precepts.

Capital Programme

(vi) Approve the Capital Programme for the years 2008/09 to 2012/13 as set out in Appendix F.

Treasury Management

(vii) Approve the Prudential indicators and Limits contained within Appendix G of the report;

(viii) Approve the Minimum Revenue Provision (MRP) Statement which sets out the Council's policy on MRP within Appendix G; and,

(ix) Approve the Treasury Management Strategy including the Investment Strategy and the Treasury Prudential Indicators, contained within Appendix H.

Reasons for Recommendation

To ensure that the Council is able to develop a sustainable budget strategy for the future.

Alternative options considered and rejected. Not applicable – alternative implications are addressed in the body of the report.

Cabinet Portfolio

The item falls within the following Cabinet portfolio:

Corporate Resources and Finance - Councillor Roger Small

MEDIUM TERM FINANCIAL STRATEGY 2008/09 - 2012/13

1 FORWARD

1.1 The Council's Medium Term Financial Strategy shows a continuing tight budget position during the period of the forecast. Like many tourist destinations Fylde is dealing with escalating costs particularly from the concessionary fares scheme, rising fuel and energy costs, increases in employee costs as a result of job evaluation and pension contributions, as well as reductions in revenue given the current economic downturn.

1.2 Additionally as a responsive and responsible local authority, the Cabinet is keen to ensure that Council tax rises for local residents are kept to an essential minimum.

1.3 The Cabinet is addressing the issues identified in the Medium Term Financial Strategy and is committed to taking the difficult decisions needed to balance the budget. Ongoing work includes a progressive approach to shared services and the implementation of service transformation and business process improvement techniques that will make Council services more efficient, save money and improve services to customers. This programme will yield efficiency improvements to help improve the overall financial position.

1.4 However, the current economic climate and the speed with which this has escalated means the Council's main focus for 2009/10 and beyond will be to find savings, maximise income, and be more efficient in order to deliver a balanced and sustainable budget in the medium term. Inevitably this may lead to a scaling down of service provision in some areas and a more paced achievement of improvement in our priority areas.

1.5 The Council is getting smaller as an organisation and we have recognised that as we move forward we must have focused priorities. To deliver our ambitious plans we must collaborate with our key partners and stakeholders in the Borough and target our resources wisely. Our ability to raise income through fees and council tax is limited and to ensure investment in our services we must sharpen our priorities, find efficiencies and maximise external funding opportunities.

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3. THE PURPOSE OF MTFS

3.1 The purpose of the Medium Term Financial Strategy (MTFS) is to:

(i) Enable the Council to deliver the aspirations within our strategic plans;

(ii) Ensure the Council delivers the highest quality affordable services by the economic efficient and effective use of its financial resources;

(iii) Demonstrate commitment to transparency in our financial affairs by setting out what we are trying to achieve in an accessible format; and,

(iv) Ensure our financial position is robust and sustainable.

3.2 The MTFS is one of the Council's key enabling strategies in that it helps us to achieve the things we need to do.

3.3 We have adopted a pro-active approach to financial management and commitment to sound corporate governance safeguarding public monies and ensuring accountability. Over recent years the Council has been recognised as making good progress with ongoing achievements and successes in priority service areas. We have continued to improve and have award winning services in many areas. Whilst we recognise the real challenges ahead we have put in place arrangements to ensure we travel in the right direction.

3.4 In formulating this Strategy the Cabinet has ensured that within the resources available it has taken account of:-

- National priorities for service investment and improvement;
- Government Efficiency targets;
- Corporate priorities reflect local circumstances and are in tune with the Local Area Agreement (LAA), partner organisations, including Health, Police, local businesses, voluntary and community organisations; and,
- Public consultation and feed back has taken place.

4.0 VISION FOR THE BOROUGH

4.1 Our vision is to establish Fylde Borough Council as a high performing local authority. This is reflected in the Sustainable Community Strategy and in the Council's Corporate Plan.

4.2 The Fylde Sustainable Community Strategy has been aligned to Ambition Lancashire (the Lancashire wide Sustainable Community Strategy), the delivery of which is set out in the LAA with many targets expressed at a district area level. The LAA creates the balance between local and national priorities and establishes commitment to 'narrowing the gap' for communities across Lancashire. In turn the Council's Corporate Plan shows how our priorities contribute to Fylde Vision (the Fylde Local Strategic Partnership) set out in the Sustainable Community Strategy.

Fig 1. Alignments of the Corporate Plan to Fylde Local Strategic Partnership Community Strategy

Fylde Borough Council Corporate Plan Priorities

To improve the economic, environmental and social well-being of our communities through:-

- Enhancement of the natural and built environment
- Increasing access to good quality housing
- Maintaining healthy & safe communities
- Supporting a diverse economy to enhance employment prospects.

Fylde Local Strategic Partnership Community Strategy Priority Themes

- Increasing community safety
- Securing the future of our environment
- Economic prosperity
- Health & well-being
- Stimulating personal growth through learning
- Valuing older people
- Thriving neighbourhoods
- Making every child matter

4.3 The Sustainable Community Strategy (SCS) is agreed by all our partners in the public and third sector and each agency contributes toward its achievement. A review of the SCS has recently been undertaken. This strengthens the focus of the themes in the SCS, aligning them more specifically to the new LAA including key partnership themes such as Health, Children and Older People. Account has been of this review in formulating our Medium Term Financial Strategy which is adapted as our strategic plans are reviewed.

4.4 The Corporate Plan is closely aligned to the SCS (see Fig. 1) and sets out the priority areas in which the Council is looking to make real a difference. Under each theme there are projects targeted to deliver the change or improvement we set out to achieve. As far as possible, allowing for spend in core service areas, our expenditure is targeted towards these priorities. In our Annual Report for 2008 we outlined our continuing priorities, our key achievements and key challenges together with data on the financial allocations made to the priority services.

Consultation and Evidence base

4.5 Both the SCS and the Corporate Plan were developed following an analysis of the information we had available about Fylde communities. This includes economic, demographic and other statistical data. It also includes information from surveys and consultations with the public on borough-wide and specific issues. We continue to update and refine the information we have and through our Listening Day events, Community Bus and the citizen’s panel and are developing further initiatives to build a dialogue with communities to better understand their needs. In turn this enables the Council to provide services that are valued and improve the way we deliver them.

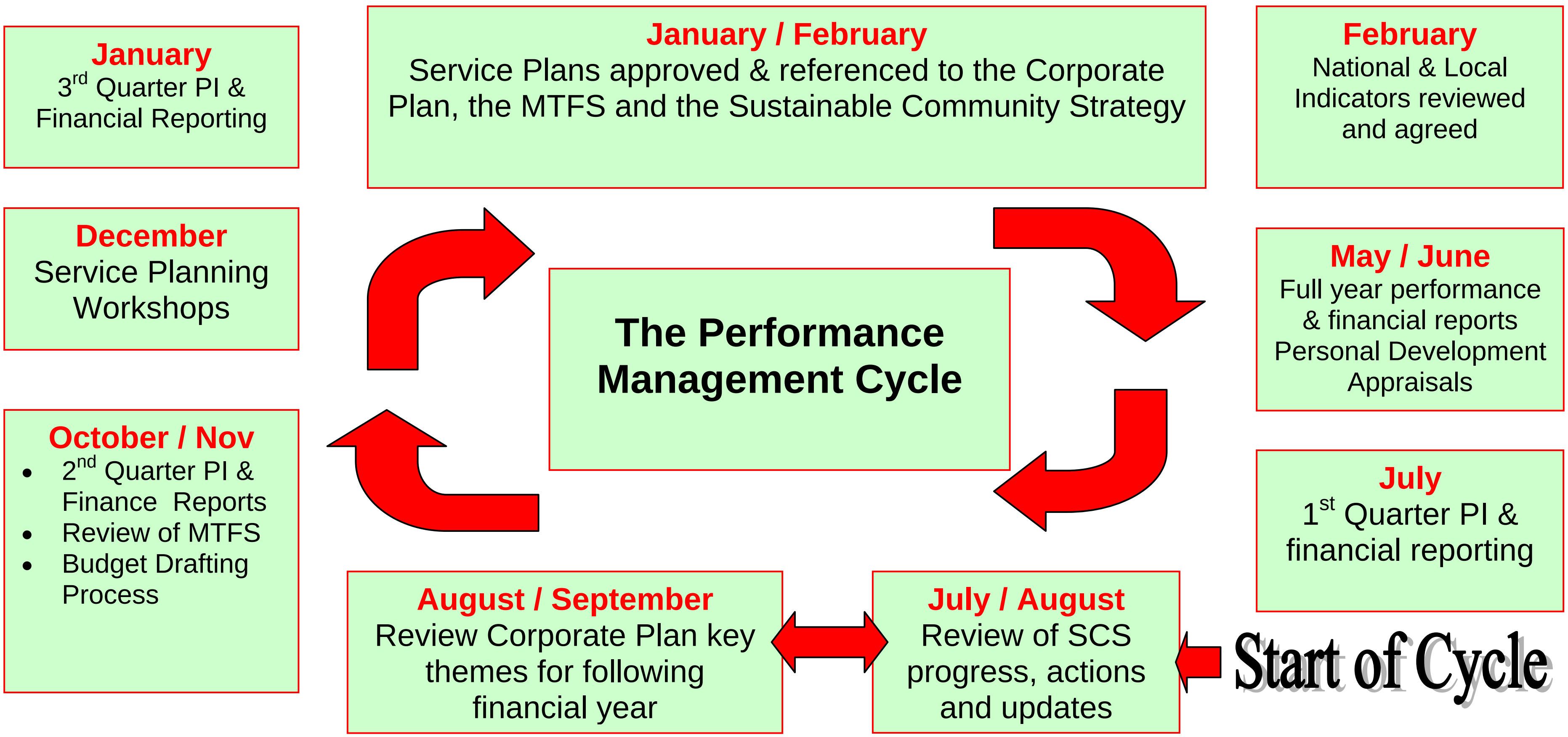
4.6 During 2008 we carried out work assisted by the IDEA to assess the overall effectiveness of the Council with a view to improving the way in which we organise local public services. We are in the early stages of acting upon this and the full benefit will be seen in the coming year. Where the decisions made within this budget setting exercise signal a change to services we have considered the impact it will have upon our various communities in order to ensure that consideration has been given to fairness and equality across the Borough.

4.7 The Fylde Citizens Panel is funded by the Local Strategic Partnership (LSP), managed and maintained by an independent contractor and is utilised by all local LSP partners. The Council has built consultation with the Citizens panel into its Strategic Planning process. In preparation for the budget setting for 2009/10 the Council conducted a citizen’s focus group covering both our immediate plans for savings and income generation but also the medium to longer term balancing of our budget. The outcome of the focus group work has been taken into account in the review of the MTFS and was available during the budget setting process.

5 STRATEGIC PLANNING

5.1 The Council has a process which works on a three year cycle which ensures we refresh the Council's important plans and strategies including the SCS and Corporate Plan (see Fig. 2). These plans are developed following consultation with our partners in other public services, the community and voluntary sector, the local business community and the public.

Fig. 2 – The Strategic Planning Cycle



Annual review

5.2 On an annual basis we review our progress against our longer term plans and this includes consideration of the MTFS. As a result we produce “The Year Ahead” statement which sets out the key challenges for the coming year. This year we recognise that despite action taken in 2007/8, with a worsening budget position and pressure on reserves the Council will need to find further economies and efficiencies. Against this backcloth progress toward the achievement of our planned priority improvements may be delayed.

5.3 The tables below summarise the priority improvement areas for the year ahead. These priorities will be reflected in service plans. Some will only proceed as the resources identified to take them forward come on stream.

5.4 ENHANCEMENT OF THE NATURAL & BUILT ENVIRONMENT

Key Delivery Issues	**Funding Issues and Assumptions**
To maintain the high quality of our parks and open spaces through improved education, enforcement and community engagement	That Revenue funding continues to be available (parks development & maintenance) Contingent on HLF funding.
To enhance the quality of the built environment	That Revenue funding continues to be available (regeneration activity) Contingent on external funding (DEFRA, NWDA, LBTB)
To respond to climate change primarily through FLoWE	That Revenue funding continues to be available. Contingent on external partnership funding.
To support the community in ensuring a sustainable borough	That Revenue funding continues to be available. Capital funding is available to support the Council’s accommodation project.

5.5 INCREASING ACCESS TO GOOD QUALITY HOUSING

Key Delivery Issues	Funding Issues and Assumptions
Revise the Housing strategy following consultation with residents and key stakeholders.	That Revenue funding continues to be available
Delivery of 150 additional affordable housing units between 2009 and 2012.	Planning gain. Work with Fylde RSL Partnership
Addressing fuel poverty through local initiatives	That Revenue funding continues to be available
Make further progress on the Local Development Framework and Core Strategy	That Revenue funding is available Planning and Housing Delivery Grant is allocated for this purpose.

5.6 MAINTAINING HEALTHY & SAFE COMMUNITIES

Key Delivery Issues	Funding Issues and Assumptions
To increase the public perception of personal safety in the community during the day and at night.	That Revenue funding continues to be available. Allocation of Community Safety Partnership funding.
To help reduce mortality and morbidity rates associated with alcohol consumption and obesity (partnership).	Partnership funding streams continue to be available through the LSP.
To promote and improve the provision of leisure services across the community.	That Revenue funding continues to be available. External and partnership funding continue to be available through the LSP.

5.7 SUPPORTING A DIVERSE ECONOMY TO ENHANCE EMPLOYMENT PROSPECTS

Key Delivery Issues	Funding Issues and Assumptions
To establish the 'Classic Resort' status for Lytham St. Annes.	That Revenue funding continues to be available. External funding support – NWDA, LEP, LBTB.
To develop our strategic approach to market town & rural economy renaissance.	That Revenue funding continues to be available. External funding support – NWDA, LEP, LBTB.
To increase our visitor & tourist economy.	That Revenue funding continues to be available. External funding support – NWDA, LEP, LBTB.
To support the interests of major local employers & diversification of the employment base.	That Revenue funding continues to be available. External funding support – NWDA, LEP, LCDL, LBTB. Partnership support through the LSP.

5.8 In addition to the above key priority themes the Council strives to be a **WELL RUN & EFFICIENT COUNCIL**

Key Delivery Issues	Funding Issues and Assumptions
ICT & communications rationalisation.	That Revenue funding continues to be available.
Fees and charges to generate additional income – a business driven approach to fees, charges and sponsorship.	That Revenue funding continues to be available.
Procurement including central business travel procurement.	Team Lancashire partnership
Achievement of 90% of services in the top quartile for VFM.	That Revenue funding continues to be available.
Achievement of 70% of national performance measures in top quartile.	That Revenue funding continues to be available.
To improve the Councils Use of Resources assessment.	That Revenue funding continues to be available.

Feedback

5.9 Having taken stock of our progress we will feed this back to the community via Fylde in Focus, via the new quarterly electronic newsletter for residents (Fylde Matters) and within the information sent out with Council Tax bills.

Links to other Enabling Strategies

5.10 The Medium Term Financial Strategy is one of the Council's enabling strategies. These strategies are aimed at improving the way we deliver services and functions. Each one of these is also reviewed annually within the planning cycle. Taken together these plans drive innovation and efficiency in the Council to help us continue to improve services. The other enabling strategies are:

- Procurement;
- ICT;
- Asset management & Capital Strategy ; and,
- Organisation and Workforce Development.

5.11 In the MTFS we have taken account of the Council's resources needed to deliver these plans and strategies. Where resources are limited our overall objectives will be the same but the pace of achievement may be adjusted.

External funding

5.12 The borough has benefited from a number of investment streams from external funds e.g. Heritage Lottery Funds, Lancashire and Blackpool Tourist Board and the North West Development Agency.

5.13 The Council has now developed expertise in bidding, securing, managing and delivering externally funded projects. Progress against the priorities rely upon a continuation of such funding.

6 DEVELOPING THE MTFS

6.1 Over the last 2 years we have developed the MTFS to ensure it is in line with and facilitating the delivery of what the Council is trying to achieve. The MTFS is a rolling strategy which takes account of immediate in-year challenges but also looks beyond that and aligns to our corporate planning cycle 2009/10 to 2011/12. It is built upon our strategic planning framework. We have made improvements to the format of the document to demonstrate the links between the MTFS and our other strategic plans.

6.2 In the near future we propose to move to a system of Directorate cash limits designed to drive the efficiency agenda and effective expenditure. We will develop this approach to focus on what is required to deliver core services and identifying those things which are areas of ‘choice’. This area will remain a key challenge for the Council against the current and future economic climate.

6.3 The Council’s service planning and performance framework is designed to ensure the continuous drive for improvement. Resources have been identified and secured to implement a Service Transformation programme. In its first phase efficiency and performance improvements have been delivered in the administration of benefits payments and work has now commenced in other service areas (planning and licensing) to roll out this programme. This work will also help to inform future decisions on how and what we deliver in house or commission from other sources

6.4 The Council overall is a low spending council when compared to the Audit Commission family group. We have analysed the Audit Commission family groups which show that the Council to perform well in almost all service categories.

7. CAPITAL STRATEGY AND ASSET MANAGEMENT PLAN

7.1 The Council owns a number of operational properties and assets and has developed a Capital Strategy and Asset Management Plan. Operational properties include office accommodation, depots, yards and venues such as the Town Hall and other offices, the Crematorium, Open Space Facilities, various car parks. The Council has five-year rolling programme of maintenance for its assets which is factored in to the MTFS

7.2 We have a minimal investment property portfolio managed to generate income to support our revenue budget and maximise any opportunities for regeneration. This situation is kept under constant review in order that timely decisions can be made on the disposal of poor performing assets to maximise income generation.

7.3 We have an Asset Management Plan and have undertaken stock condition surveys to establish the rolling programme of repair and maintenance. This takes account of the need for efficiency and environmental impact.

7.4 The Council's access to capital resources is diminishing and the pressure is on our revenue budget limits our capacity to borrow. Therefore we propose to conduct a review to ensure that we can match our capital programme to the funds available. In reality this will mean we have to divest ourselves of some assets to ensure we can maintain the remaining estate to the desired standard. The current economic climate will make it more difficult to dispose of assets and careful judgement will be needed to ensure we realise a good return.

8 MTFS IN SUMMARY.

8.1 The MTFS sets out the directorate revenue allocations, the programme for capital investment, efficiency targets and forecasts for the period covered by the strategy. It builds on the platform of the previous strategy. The key influences on this strategy are:

- The spending pressures efficiency targets and reduced resources in the medium term;
- Setting the Council Tax keeping increases to a minimum whilst protecting investment in key services priorities for the people of Fylde ;
- Developing higher levels of customer satisfaction, efficiency, value for money, strategic partnerships, service commissioning, and enterprise;
- Maintaining the Council's continuous drive for greater levels of efficiency; and,
- The need to maintain existing assets to a quality standard.

8.2 The MTFS looks ahead over the coming four years to identify the resources likely to be required by the Council to finance our service priorities and to meet spending pressures. It aims to:

- Ensure the sustainability of the Council's budget;
- Facilitate pro-active strategic management of the budget to ensure service investments and dis-investments flow from the Council's corporate priorities as set out in the Corporate Plan;
- Be responsive to an ever changing and uncertain financial climate in which existing funding streams cease and new opportunities arise; and,
- It demonstrates clearly to stakeholders both internal and external what the Council's plans are for the use of its resources.

The need for a longer term view of the Council's financial position has always been important but as the financial climate tightens this is increasingly so.

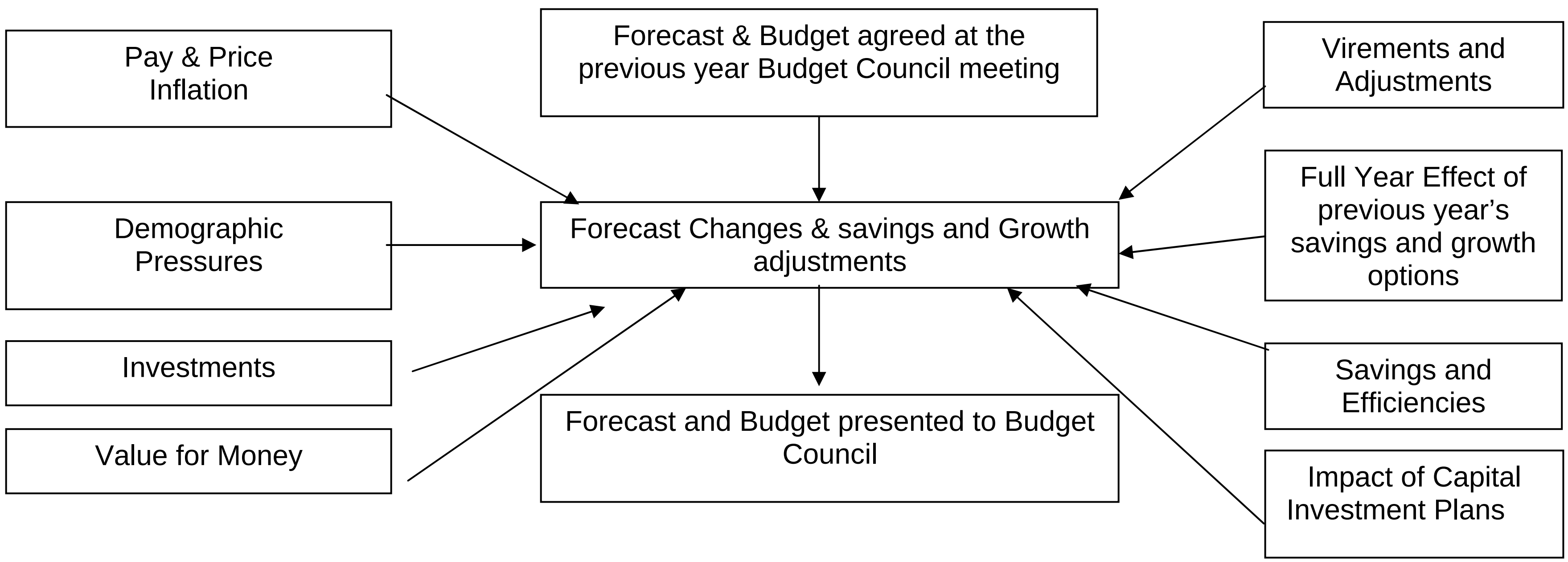
8.3 The MTFS and forecast are supported by a number of monitoring procedures. These are as follows:

- General Fund Quarterly Budget Monitoring;
- Capital Programme Quarterly Monitoring;
- Treasury Management Quarterly Monitoring together with specialist external advice; and,
- Annual Outturn reports for Capital, General Fund and Treasury Management.

9. DEVELOPING THE COUNCIL'S BUDGET FORECAST IN THE CONTEXT OF THE MEDIUM TERM FINANCIAL STRATEGY

9.1 The starting point is the forecast which was agreed by Council at its last Annual Budget setting meeting. The forecast is reviewed in the light of the previous year's outturn information. Any changes to the Government's Comprehensive Spending Review 2008/11 are incorporated. Original assumptions are reviewed, new spending pressures are assessed and evaluated and any in year budget decisions are taken into account. The need for new spending in the form of Growth Options are considered and a savings target is assessed in the light of available resources. The process followed is set out in figure 5 below:-

Fig 5 **The Council's Budget Process**



10. 2007/08 OUTTURN IMPLICATIONS

10.1 In order to 'scene set' the current financial position of the Council is summarised for Members as follows:

(i) Original Budget 2008/09

At Council on the 3rd March 2008 the Budget was agreed and a Total Net Budget Requirement of £10.900m was set for 2008/09. A savings target of £1.3m was agreed for 2008/09 and future reserve balances at that time were forecast at the end of 2010/11 to be £1.471m. In agreeing the original budget for 2008/09 a number of key financial risks were highlighted. A number of these risks have receded but the following are still current:-

a. the Concessionary Fares expenditure;
b. sand extraction income; and,
c. new property income-refuse collection contract.

(ii) General Fund – Outturn Position 2007/08

The outturn position reported an underspend of £63k. Taking account of slippage of £96k, the underlying overspend for the year was £33k. The underspend was generated mainly from vacancy savings and additional Local Authority Business Growth Initiative (LABGI) grant received. The underspend represented a minor improvement in the Council's general reserves position.

(iii) Capital Outturn

The Capital Outturn for 2007/08 was a net underspend in year of £0.187m against the last reported estimate. However slippage was estimated as £0.135m, resulting in an underlying underspend of £0.052m

(iv) Treasury Management Annual Report

All Prudential Indicators set by Council for 2007/08 were within target, however in line with the Capital Programme new long term borrowing was undertaken and the Council ceased to be "debt free".

(v) General Fund (GF) Quarterly Budget Monitoring 2008/09

The second quarterly GF monitoring report to the end of September 2008 for 2008/09 presented to Executive Member (Finance and Efficiency) identified a number of areas of concern. As a result a number of additional savings which total £377k have already been included in the forecast. In addition a cause for concern is a number of savings targets are not currently being achieved. Alternative savings will be required for any shortfall

11. THE GENERAL FUND REVENUE FORECAST

11.1 Appendix A sets out the Original Forecast, which was amended by £11k and agreed at Budget Council. In rolling forward the forecast a number of assumptions and changes have been made. These are as follows:

General Assumptions

- Inflationary increases have been included as follows:-
  Pay Award Inflation of 2.5%;
  Insurances – 5% (Year on Year);
  Telephones – 3% (Year on Year);
  Water – 10% (Year on Year);
  Business Rates – 4.8% (Year on Year); and,
  No other inflationary increases have been applied

- 3.5% per annum increase on all fees and charges income excluding Lowther, Planning Applications and Car Parking;
- Vacancy savings of £100k per annum have been included for future years (£190k is included in current year.);
- Slippage of £96k from 2007/08 has been included;
- Council tax increase – 4.99% per annum; and,
- Provision has been made for unsupported (via government grant) borrowing for those schemes within the Capital Programme.

12. NEW SPENDING PRESSURES

12.1 In formulating the new forecast a number of spending pressures have been identified and the forecast has been adjusted accordingly. A full list of the adjustments is set out at Appendix B. The major items are as follows:

Expenditure Items

(i) Concessionary Fares

The impact on the Council by the introduction of the new National Travel Scheme from April, 2008 has been included in the latest forecast. The additional Government grant of £0.275m has been included in line with the CSR announcement.

Earlier this year all District Councils in Lancashire agreed to a pooling scheme to mitigate the impact of increases on individual authorities.

The main reasons for the significant increased cost of the scheme are due to:

- A sharp increase in trips which would previously have been half-fare and which are now free. In addition, there is anecdotal evidence from operators who are reporting that there is a ‘novelty factor’ amongst passengers as a result of the new scheme;
- Higher fare increases than previously anticipated, largely as a result of the volatility in the energy markets. Some fare increases from individual operators have been as high as 17%; and,
- Increases in costs have been mitigated by the reduction in the operator reimbursement rate negotiated earlier in the year.

(ii) Fuel Costs & Utility Costs

The price of oil has resulted in a significant increase in the cost of fuel consumed by the Council. Energy costs have been increased by 102% with effect from October 2008 as a result of the latest fuel contract which runs for 12 months. Some reductions in prices have been allowed for in later years.

(iii) Wyre Contract Issues

Further additional budget provision has been made for Bins and Boxes for the Wyre Refuse Collection Service which the Council is contractually committed to.

The assumed increase in contract income from 2009/10 is 3.5% per annum.

Included in the Wyre Contract is an income budget for additional unspecified work. (e.g. Fly tipping, collection of side waste) The budget was set in line with previous years work levels. However, this year the works orders received from Wyre have been significantly reduced, consequently this income budget has been reduced by £100k per annum.

Income Items

(iv) A number of the Council's income streams have suffered significantly mainly as a result of the current economic circumstances. These include:-

- Land Charges;
- Car Parks Income;
- Reduction in Recycling Sales Income;
- Planning Fee income; and,
- Sandwinning income

Other Items

(v) Additional Interest Receivable

Members will be aware that the Council's borrowing is based on a fixed rate basis while investment income is generated from variable rate investments. Consequently, the recent reduction in interest rates has had a detrimental impact on the Council's forecast.

(vi) Vacancy Savings Estimate

Extra savings have been included for the current and future years.

Appendix C sets out the latest forecast in the light of the above pressures.

13. SAVINGS & GROWTH PROPOSALS

13.1 To achieve the savings proposals set out in this report a process was established. Savings targets were set for each Directorate. It was recognised that Directors would focus on:

(i) Reducing optional areas of core service;
(ii) Reducing or ceasing non core service;
(iii) Improving the efficiency and Value for Money of Services;
(iv) Increasing fees and charges income streams; and,
(v) Providing the Council with new income streams.

13.2 Management Team have carefully considered proposed savings in the context of the Council's priorities and the need to keep expenditure within available resources. Attached at Appendix D is the detailed list of savings proposals which may change the pace at which the Council is achieving its corporate priorities.

13.3 The Cabinet have also considered a number of growth options to improve the achievement of corporate priorities. However as a result of the financial restrictions on the authority it has only been possible to recommend a limited number to Council.

14. GENERAL FUND RESERVE AND OTHER EARMARKED RESERVES & PROVISIONS

14.1 The Council also carries a number of other provisions, reserves and balances which are held for two main purposes.

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing, this forms part of what is commonly referred to as 'general balances'; and,
- A contingency to cushion the impact of unexpected events or emergencies.

14.2 The Council's total General Fund Reserve at 31st March 2008 was £0.863m. Currently the recommended minimum General Fund Reserve balance is £530k. However, given the problems that have been encountered during the current financial year the Council needs to work towards maintaining a higher minimum balance in the region of £750k. During 2008/09 it's proposed to move only £8k available for release. This will be taken from the Replacement System earmarked reserve towards the cost of the new Electoral System.

15. COMPREHENSIVE SPENDING REVIEW (CSR)

15.1 The CSR for three years commencing 2008/09 contained an increase in Aggregate External Finance nationally of 3.7%, 2.8% and 2.6% in cash terms, equivalent to real term increases of 0.9%, 0.1% and -0.1% over the 3 years.

15.2 The actual grant included in the forecast is as follows:-

	2008/09 £000	2009/10 £000	2010/11 £000
Formula Grant	5,600	5,719	5,859

16. OTHER FUNDS

Collection Fund

16. The Collection Fund cumulative deficit balance as at 31st March 2008 was £0.433m. The balance will be shared in accordance with the regulations.

17. KEY AREAS OF FINANCIAL RISK (REVENUE)

In considering this updated forecast Members should be aware that there are still a number of significant risks which are set out below. In addition the current economic circumstances will mean that the changes in forecasts are likely to be more volatile than in previous years.

17.1 Concessionary Fares

The new national scheme was introduced from April 2008. Concessionary Fare estimates are based on 10 month usage and variations are likely as the year progresses. Negotiations will commence with the operators regarding the cost reimbursement for the new year. It is anticipated and reflected in the forecast that the cost reimbursement will be reduced for the scheme. However, until negotiations are complete it will remain a risk issue.

Furthermore, the forecast assumes the function will be transferred to the County Council in 2011/12. Savings of £0.8m have been assumed in the forecast on the basis of the expenditure and associated cash grant being transferred to the County. However, it is possible that the ability to tax for the difference could also be transferred to the County. If this happened the Council will be faced with an additional expenditure savings requirement of £0.8m per annum in 2011/12 and 2012/13.

17.2 Fuel and Energy Cost Increase

The current economic climate and volatility of prices are a major cause of concern.

17.3 Land Charges

From 1st April 2007, Registering Authorities such as Fylde will set their own fees for the registering of Local Land Charge services. The underlying requirement is that the Land Charge fees must not exceed total costs for each of the fees defined. Where there is a surplus or deficit on the fees in year, the charges must be adjusted in future years. This new legislation will result in lower fees income to the Council. In addition the down turn in the housing market may affect the fee income more than anticipated.

17.4 **Carbon Reduction Commitment (CRC)**

The Council must meet Central Government targets on Carbon Reduction in future years.

(a) The CRC is a mandatory cap and trade scheme for emissions targeted at large companies including local Authorities.

(b) If organisations spend more than £0.5m on electricity in the UK annually the CRC requires you to:

- Measure energy usage through fixed point sources;
- Report usage to Government; and,
- Pay for emissions that energy usage creates

(c) The impact for Fylde is currently being assessed and a report will be prepared early in the new year.

17.5 **Staffing Restructure Costs**

Inevitably the size of savings required to be achieved during the forthcoming financial year is likely to involve some redundancy costs. On the basis of discussions with GONW it is expected that the Council will be able to capitalise these costs. An initial estimate has been assessed and the cost is likely to be in excess of £400k. This estimate needs to be re-evaluated as and when the detailed information is available. On the assumption that the capitalisation is approved there will be an additional revenue cost in respect of future debt repayments. No specific provision has been made within the forecast and consequently, any debt repayment will have to be contained from within existing resources.

17.6 **Kirkham Pool**

At time of writing this report the proposed transfer of Kirkham Pool to the YMCA had not been finalised. Consequently, the forecast has been prepared on the basis of closure of the facility on 31st March 2009. Should the transfer be delayed and a decision made to keep the pool open until the transfer is resolved this would cost an estimated £30k per month which is not included in the forecast.

17.7 **Pensions**

Next year sees the Triennial Review of the Pension Fund and given the current economic climate it is expected that contribution rates are likely to increase.

17.8 **Sensitivity Analysis**

A sensitivity analysis of the forecast has been undertaken and given the low level of Council Reserves the forecast would need to be reviewed should a significant adverse change would obviously need to be addressed, particularly in the latter years of the forecast.

18. THE CAPITAL PROGRAMME

18.1 Capital Expenditure is defined as expenditure on the acquisition of a fixed asset and/or expenditure which adds value to (not merely maintains), the value of an existing fixed asset. Examples of fixed assets are; land, building, plant and vehicles. Capital expenditure also includes the making of an advance, grant or other finance assistance towards expenditure which would, if incurred by the Council, be classed as capital expenditure.

18.2 The Capital Programme for the years 2008/09 to 2012/13 is updated continually for agreed changes and reported to the Executive Member (Resources) during the financial year on a quarterly basis.

18.3 The latest updated Capital Programme Summary is set out in Table 1. This has been updated for agreed changes to the end of December 2008. A prudent approach is taken in preparing the programme to ensure that financing resources are only recognised when there is relative certainty that they will be received.

UPDATED 5 YEAR CAPITAL PROGRAMME 2008/09 TO 2012/13

APPROVED SCHEMES	Approved Budget 2008/09 £000	Updated Estimate 2008/09 £000	Estimate 2009/10 £000	Estimate 2010/11 £000	Estimate 2011/12 £000	Estimate 2012/13 £001	TOTAL BUDGET £000
Community Services	2,731	1,420	2,590	1,604	810	810	7,234
Strategic Development Services	713	638	3,377	2,895	30	30	6,970
Assistant Chief Executive	32	44	22	0	0	0	66
Operational Services	161	161	0	0	0	0	161
Total Expenditure	**3,637**	**2,263**	**5,989**	**4,499**	**840**	**840**	**14,431**
RESOURCES:							
Capital Receipts	150	543	3,309	3,042	100	100	7,094
Applied Capital Grants	0	175	0	0	0	0	175
Leasing	0	0	0	794	0	0	794
Disabled Facilities Grant	389	389	366	366	366	366	1,853
Capital Grant	395	277	200	200	200	200	1,077
Capital Grant - Repayments		25					25
Other External Finance (see analysis below)	1,820	443	1,444	0	0	0	1,887
Direct Revenue Finance	0	102	0	0	0	0	102
Prudential Borrowing	883	309	670	97	174	174	1,424
Total Financing	**3,637**	**2,263**	**5,989**	**4,499**	**840**	**840**	**14,431**
Total surplus (-) / shortfall in year	0	0	0	0	0	0	0
Cumulative surplus (-) / shortfall	0	0	0	0	0	0	

18.4 Appendix F sets out the latest Capital Programme as at 31st December 2008.

18.5 Financing the Capital Programme

Having determined its priorities, the Council finances the Capital Programme from a variety of sources.

(i) Capital Grant Allocation

During 2006/07 the Government replaced its system of supported borrowing based on capital allocations with a single capital cash grant. The actual grant received will depend on future government support. The grant is used to fund expenditure on Housing Strategic Services schemes. The remainder of the Capital Programme is resourced from other sources.

(ii) Disabled Facilities Grants

The Council receives a specified government capital cash grant to be spent on Disabled Facilities Grants. The grant allocation represents a contribution of a maximum of 60% towards expenditure on Disabled Facilities Grants; the Council finances the remaining 40% through Capital Grants.

iii) Capital Receipts

A key element to resourcing the programme is receipts from the disposal of assets. As result of the national economic climate there has been a significant reduction in receipts from disposals.

(iv) External Funding

The Council strives to maximise opportunities to secure external resources and to work in partnership with other organisations to ensure that the Council's Capital investment priorities are delivered.

(v) Prudential Borrowing/Leasing

In accordance with the Government's Prudential Code for Capital Finance the authority is able to borrow in order to resource capital expenditure provided that it's capital spending plans are affordable, prudent and sustainable. In assessing these criteria the Council must look at the impact of its capital investment plans on the Council Tax-payer.

Prudential Borrowing may be appropriate for developing "Invest to save" or "Payback" schemes within a climate of scarce resources. These are schemes which can deliver revenue efficiencies and savings or generate new income which would repay the principal and interest costs of the borrowing. Each scheme proposed is subject to a financial analysis and review on a scheme by scheme basis.

19. KEY AREAS OF FINANCIAL RISK (CAPITAL)

19.1 There are a number of financial risk areas on the Capital Programme for Members to be aware of:-

(i) Capital Receipts.

Forecasts of Capital receipts are a best estimate. Actual sales are dependent on future market conditions and cannot be predicted with certainty. This results in an inherent risk in the forecast level of programmed resources particularly in the latter years of the programme.

(ii) Capital Grants

The amount of Capital Grant allocation and Disabled Facilities Grant will always depend on future government decisions. The grant settlements from 2009/10 to 2012/13 are currently estimates and are only confirmed in the year they are due. Any reduction in government grants will have a direct impact on the level of Capital Programme work that can be undertaken.

20. TREASURY MANAGEMENT STRATEGY (Inc. PRUDENTIAL INDICATORS)

20.1 Treasury Management is defined as the management of cash flow, banking monies, money market and capital market transactions and the control of the risks associated with these activities. Prudential Indicators provide the framework within which these transactions should be monitored.

Prudential Indicators

20.2 The objective of the Prudential Code for Capital Finance in Local Authorities (the Code) is to provide a framework to ensure that the Council's Capital and Revenue Budget Plans are affordable, prudent and sustainable.

20.3 The Prudential Code requires the Council to approve, revise and monitor a number of mandatory Prudential Indicators covering the forthcoming three years. These are detailed in Appendix G.

20.4 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management requires the Council to review and approve a Treasury Management Strategy. This strategy covers the operation of the treasury function, its expected activities for the forthcoming year and also includes a number of Prudential Indicators. The Prudential Indicators are set out in Appendix G and the Treasury Strategy is set out in Appendix H.

20.5 The Prudential Indicators follow the reporting mechanism as proposed by our Treasury Consultants (Sector). This reporting format also complies with the requirements of CIPFA.

21. RISK AREAS TO THE MEDIUM TERM FINANCIAL STRATEGY AS A RESULT OF TREASURY MANAGEMENT ACTIVITIES.

21.1 There are a number of potential areas of significant risk associated with Treasury Management activities.

The main risks to the Medium Term Financial Strategy as a result of Treasury Management activity are:

(i) Unexpected movement in cash flow;

(ii) Difference between actual Interest rates and rates used in the forecast; and,

(iii) Security of monies invested with counterparties.

22. CONCLUSIONS

22.1 Pressures outside the Council's control which are being experienced by all other local authorities, e.g. utility cost increases. Rising concessionary fare costs are putting a severe strain on our resources. In addition the Triennial Review of the Pension Fund may well have a significant impact.

22.2 The current economic situation brings with it a great deal of uncertainty. These include not only inflation and interest rate volatility, but also pressure on income budgets as consumer spending reduces. In addition pressure is being placed on Advice and Benefits services as the employment market contracts. These new pressures and indeed future emerging pressures will require some future modification of the strategy.

22.3 Some sources of external funding have ended and new opportunities have arisen. Competition for these resources is greater. The Council is highly dependent on additional external funding sources for some projects and levels of service.

22.4 The Council's service transformation project will ensure continued improvements to the Council's efficiency and Value for Money aspirations. The backcloth of reducing resources makes this initiative more important to achieve but at the same time is likely to be overshadowed by the overall financial situation.

22.5 The Council's priorities for improvement remain. However Cabinet need to continuously monitor the Council's current strategy addressing emerging budget pressures to ensure a sustainable position in the medium term. In addition, it will need to match any new funding to existing initiatives delivering against LAA targets.

22.6 The Council's current financial position is only just robust given the level of reserves it currently holds and the current economic climate. It is also faced with a significant savings target to maintain its minimum reserves requirement in 2009/10.

22.7. The limited availability of current reserves gives the Council little flexibility in the timing of the budget savings which need to be made. However, the build up of these reserves will make the Council less vulnerable to future increases in expenditure.

22.8 As the Council's S151 Officer under the Local Government Act 2003 I am required to comment on the "robustness" of the Council's financial position.

I have considered the major items of expenditure and income and their sensitivity to change, together with the savings and growth proposals and the impact on the Council's future forecasts and level of reserves.

- It is my opinion that the estimates have been prepared and reviewed utilising the most up to date and accurate information available. Therefore, I can confirm the recommendations contained in this report provide the Council with a robust financial position over the life of the forecast. In arriving at this opinion I wish to draw two matters to Council's attention.

  Firstly, the Council's balances at the end of 2009/10 are only just above the minimum and in moving forward the Council should retain a minimum level of balances of £750k in 2010/11 and beyond.

  Secondly, the Concessionary Fare situation requires careful monitoring from three perspectives:

  (i) The impact of ongoing usage needs to be continuously reviewed;

  (ii) The impact of the reimbursement rates negotiations for operators needs to be assessed once they are concluded; and,

  (iii) The Council is placing a lot of reliance on the transfer of the Concessionary Fare function to the County in 2011/12. Savings of £1.1m have been predicated on this transfer which would be a major challenge to find from elsewhere. Consequently, action will be required if this fails to materialise.

Approved General Fund Budget Forecast Position 2007/08 to 2010/11 - Council March 2008

	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000
Net Budget Requirement as per February 2007 Council Meeting	**10,513**	**10,513**	**10,513**	**10,513**
Unavoidable Changes	1,000	1,686	1,896	2,134
Savings Options		(1,300)	(1,715)	(1,715)
	11,513	**10,900**	**10,694**	**10,932**
Financed by:				
Government Grant	5,456	5,600	5,719	5,859
Council Tax (incl annual Tax Base Increases & Collection Fund Deficit)	4,790	5,026	5,341	5,636
	10,246	**10,626**	**11,060**	**11,495**
Call on Reserves	**1,267**	**274**	**(366)**	**(563)**
General Fund Reserves				
Balance of General Fund Reserves (as at 31 March 2007)	804	815	542	908
In Year Use of Ringfenced & Other Earmarked Reserves	576			
Proposed Additional Release of Ringfenced & Other Earmarked Reserves.	702			
Less Transfer to Revenue in Year	(1,267)	(274)	366	563
Year End Balance	**815**	**542**	**908**	**1,471**
Band D Council Tax (Excl Parish Precepts)	**£160.98**	**£169.01**	**£177.44**	**£186.29**
Council Tax Increase	**4.95%**	**4.99%**	**4.99%**	**4.99%**

Forecast Changes	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
Slippage from 2007/08	86	-	-	-
Job Evaluation - annual effect of scheme results	(25)	-	-	-
Inflationary Increases for all types of insurance - 5%	-	17	35	53
Net changes to Utilities costs	(25)	170	182	195
Net effect re Salary/Wages costs & Superannuation Increases	-	-	20	459
Inflationary Increases on all Fees & Charges/Contract Income	-	(105)	(214)	(326)
RPI Increases on the Wyre Contract	-	(85)	(111)	(267)
Removal of specific annual transfers to Reserves	(38)	(40)	(40)	40
Additional Fuel Costs for Fleet	90	70	70	70
Additional Concessionary Travel Costs	270	294	327	327
Additional Costs of waste containers for Wyre Contract	80	80	80	80
Additional Recycling Costs (from April 2010)	-	-	50	50
Wesham Offices - expiry of Lease	-	40	55	55
Annual Residual Costs - St Annes Pool & Kirkham Pool	-	87	83	83
Revs & Bens Shared Service Adjustments	65	60	60	60
Adjustments to previous years savings targets	22	117	117	117
Reduction in Income Budgets eg Car Parking, Sandwinning	459	379	379	379
Net change in External Grant Income	(32)	59	59	59
Commutation Adjustment	(98)	-	-	-
Increase in estimated staff vacancy savings	(87)	(54)	(53)	(51)
Changes to Investment Interest /Borrowing Costs	(61)	169	47	(71)
Other General Underspends including reduction in lease costs	(159)	-	-	-
Housing Needs Survey	-	20	20	20
Reduction in LABGI Grant Receivable	-	200	200	200
LABGI (expected grant income)	-	(13)	(27)	-
Other minor changes	29	8	79	82
Total Changes	**576**	**1,473**	**1,418**	**1,614**

APPENDIX C

General Fund Budget Forecast Position 2008/09 to 2011/12

	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
Net Budget Requirement as per March 2008 Council Meeting	**10,900**	**10,694**	**10,932**	**10,932**
2008/09 In-Year Savings identified	- 377			
Forecast changes as per appendix B	576	1,473	1,418	1,614
Capitalisation	- 120	8	8	8
Proposed Savings		- 1,176	- 1,377	- 2,077
Proposed Growth Items		115	22	22
	10,979	**11,114**	**11,003**	**10,499**
Financed by:				
Government Grant	5,751	5,741	5,859	6,000
Council Tax (incl annual Tax Base Increases & Collection Fund Deficit)	5,026	5,266	5,598	5,878
	10,777	**11,007**	**11,457**	**11,878**
Call on Reserves	**202**	**107**	**- 454**	**- 1,379**
General Fund Reserves				
Balance of General Fund Reserves (as at 31 March 2008)	863	669	562	1,016
In Year Use of Ringfenced & Other Earmarked Reserves	8			
Less Transfer to Revenue in Year	- 202	- 107	454	1,379
Year End Balance	**669**	**562**	**1,016**	**2,395**
Band D Council Tax (Excl Parish Precepts)	**£169.01**	**£177.44**	**£186.29**	**£195.59**
Council Tax Increase	**4.99%**	**4.99%**	**4.99%**	**4.99%**

Total Savings Options			2009/10 £000	2010/11 £000	2011/12 £000	Ongoing £000
Executive Board						
Executive	Management Team Savings Target		100	150	150	150
Executive	Disestablish post of Assistant PA to the Chief Exec & Directors		18	18	18	18
	Cut News Paper budget		2	2	2	2
		sub total	**120**	**170**	**170**	**170**
Community Services						
Community Services	Departmental Restructure		25	50	50	50
Cultural Services	Reduce operational overhead budget		7	7	7	7
Licensing	Gambling Act - Income increase		20	20	20	20
Emergency Planning	Reduce Emergency Planning budget to min. statutory level		20	20	20	20
Licensing	Reduce Licensing budget to min. statutory level		8	8	8	8
Housing	Reduce Homelessness Budget		15	15	15	15
Community Services	Lowther Pavilion- reduced Council Subsidy		0	30	30	30
Environmental Health	Pest Control - reduce expenditure/increase income		5	5	5	5
Cemetery/Crematorium	Cremation Operating Lease (expiry)		16	16	16	16
Arts	Reduce art collection maintenance budget		4	4	4	4
Parks Operational	General Budget reduction (Retain Bunting & Staging budgets)		30	30	30	30
Cemetery/Crematorium	Increase Internment fees from £320 to £340 (plus VAT)		2	2	2	2
Cemetery/Crematorium	Increase Cremation Fees from £360 to £400 (plus VAT)		48	48	48	48
Leisure	Revise operation of Fairhaven Lake Boats		15	15	15	15
Environmental Health	Other Fees (Public Health & Fly Tipping)		2	2	2	2
Environmental Health	Env Protection Service - reduce expenditure/increase income		5	5	5	5
		sub total	**222**	**277**	**277**	**277**
Corporate Resources						
Benefit Fraud	Implement Shared Service		25	25	25	25
		sub total	**25**	**25**	**25**	**25**
Assistant Chief Executive						
Tourism	Reduction of general Tourism		5	5	5	5
		sub total	**5**	**5**	**5**	**5**
Performance & Business Improvement						
Vocational Training	20% reduction in vocational training		5	6	6	6
ICT Projects Officer	Removal of the post that has been frozen for 12 months		30	30	30	30
CAT Team	Removal of part-time vacant posts		8	15	15	15

Total Savings Options			2009/10 £000	2010/11 £000	2011/12 £000	Ongoing £000
One Stop Shop	Removal of part-time vacant post		7	7	7	7
Information Kiosks	Removal of the free internet kiosks located across the borough		2	3	3	3
Escendency	Removal of online performance management system		5	0	0	0
Car User & Mileage Changes	Implement revised policy on car mileage and user status		10	20	20	20
Personnel	HR SLA savings Subject to final agreement with Blackpool BC		10	10	10	10
		sub total	**77**	**91**	**91**	**91**
Strategic Development Services						
Strategic Development Serv.	Departmental Restructure		25	50	50	50
Property	Review of property maintenance arrangements		20	20	20	20
Property	Reduction in Property Maintenance Budget		40	40	40	40
Technical Services	Reduction in Flood Defence /Coast Protection		30	30	30	30
Property	Increasing rent / concessions income levels		19	19	19	19
Property	Remove Vending Machine in Town Hall		5	5	5	5
Technical Services	Street Furniture Maintenance		8	8	8	8
Technical Services	Removal of Bus Shelter replacement		7	7	7	7
Property	Remove Open Air Baths other fees budget		5	5	5	5
Property	Remove Sand Dunes other fees budget		5	5	5	5
Planning	Additional Planning Advice Income		5	5	5	5
		sub total	**169**	**194**	**194**	**194**
Operational Services						
CVMU	Operational Services Restructure		37	64	64	64
Street Cleansing	Delete vacant post.		18	18	18	18
Street Cleansing	Charge customers for Grey and Green wheeled bins		25	25	25	25
Fleet Vehicles	Savings target		10	10	10	10
Street Cleansing	Target reduction in agency budget		30	30	30	30
		sub total	**120**	**147**	**147**	**147**
Finance						
Finance	Benefits Cheques to second class mail - Postage Savings		8	8	8	8
		sub total	**8**	**8**	**8**	**8**
Miscellaneous						
Concessionary Fares transfer of responsibility from 2011/12			0	0	800	800
Concessionary Fares Generation factor adjustment			100	100	0	0
Energy Cost reduction			30	60	60	60
Additional Savings still to be found via Authority Wide review of Staffing Costs			300	300	300	300
		sub total	**430**	**460**	**1,160**	**1,160**
Total Savings Options			**1,176**	**1,377**	**2,077**	**2,077**

Growth Options	**2009/10 £000**	**2010/11 £000**	**2011/12 £000**	**Ongoing £000**
Christmas Lights matched funding - St Annes	6	6	6	6
CCTV	0	0	0	33
Planning & Housing matched expenditure	72	0	0	0
ICON Upgrade System (to ensure PCI compliance)	37	16	16	16
TOTAL	**115**	**22**	**22**	**55**

APPENDIX F

UPDATED 5 YEAR CAPITAL PROGRAMME 2008/09 TO 2012/13

	APPROVED SCHEMES	Finance Indicator	Approved Budget 2008/09 £000	Slippage B/F from 2007/08 £000	Adjustments Q1, Q2 & Q3 £000	Updated Estimate 2008/09 £000	Estimate 2009/10 £000	Estimate 2010/11 £000	Estimate 2011/12 £000	Estimate 2012/13 £001	TOTAL BUDGET £000
	COMMUNITY SERVICES										
Z010	Disabled Facilities Programme	D2	648	-142	150	656	610	610	610	610	3,096
Z024	Pvte Sector Hsng Renewal Grants	D3	335	117	-192	260	268	200	200	200	1,128
Z011	Cem & Crem Capital Projects	C	10			10					10
Z068	Crematorium Project - Cremators	G			6	6		794			800
Z030	Ashton Gardens Heritage Restoration	D1	1,415	35		200	1,535				1,735
Z040	Kirkham War Memorial	G	100		115	215					215
Z052	Chimes	G	20	20	-7	33	27				60
Z053	Youth Facilities	G	15			15	15				30
Z058	Warton Sports Pavillion - Refurbish	G		25		25					25
Z064	Boating Pool	G	45		-45	0					0
Z063	Prom Gardens Paddling Pool	G	8		-8	0					0
Z065	Play Equipment	D5	135		-135	0	135				135
			2,731	55	-116	1,420	2,590	1,604	810	810	7,234
	STRATEGIC DEVELOPMENT SERVICES										
Z001	St Annes Square Regeneration	D4, G	106		-66	40	54				94
Z027	Town Hall accommodation	A3,G	100			100	2,942	2,865			5,907
Z036	Cons'n Area Rest'n Scheme St Annes	D6,G		145	-8	137					137
Z045	St Annes Town Centre	E1,G	80		-74	6	79				85
Z062	Tourist Board Project - Public Realm Streetworks	D8,G	285		-110	175	110				285
Z047	Footway Lighting Schemes	G	12		-12	0	12				12
Z051	Kirkham Building Refurbishment	D7,G	100		-50	50	150				200
Z049	Car Park Improvements	G	30			30	30	30	30	30	150
Z069	CPO - 50 Park Road St Annes	F			100	100					100
			713	145	-220	638	3,377	2,895	30	30	6,970
	ASSISTANT CHIEF EXECUTIVE										
Z046	CCTV Community Safety	G	32	12		44	22				66
			32	12	0	44	22	0	0	0	66
	OPERATIONAL SERVICES										
Z048	Danfo Public Conveniences	G	144			144					144
Z066	Waste Disposal - Depot Improvements	G	17			17					17
			161	0	0	161	0	0	0	0	161
	Total Expenditure		**3,637**	**212**	**-336**	**2,263**	**5,989**	**4,499**	**840**	**840**	**14,431**
	RESOURCES:										
	Capital Receipts		150		393	543	3,309	3,042	100	100	7,094
	Applied Capital Grants		0		175	175	0	0	0	0	175
	Leasing		0			0	0	794	0	0	794
	Disabled Facilities Grant		389		0	389	366	366	366	366	1,853
	Capital Grant		395		-118	277	200	200	200	200	1,077
	Capital Grant - Repayments				25	25					25
	Other External Finance (see analysis below)		1,820	-205	-1,147	443	1,444	0	0	0	1,887
	Direct Revenue Finance		0		102	102	0	0	0	0	102
	Prudential Borrowing		883		-574	309	670	97	174	174	1,424
	Total Financing		**3,637**		**-1,144**	**2,263**	**5,989**	**4,499**	**840**	**840**	**14,431**
	Total surplus (-) / shortfall in year		0			0	0	0	0	0	0
	Cumulative surplus (-) / shortfall		0			0	0	0	0	0	

See note below for external funding available to finance the above schemes:

	Approved Budget 2008/09 £000	Slippage B/F from 2007/08 £000	Adjustments Q1, Q2 & Q3 £000	Updated Estimate 2008/09 £000	Estimate 2009/10 £000	Estimate 2010/11 £000	Estimate 2011/12 £000	Estimate 2012/13 £001	TOTAL BUDGET £000
Other External Finance: Analysis									
Tourist Board	200	-15	-10	175	10				185
North West Development Agency	20		-10	10					10
Lancashire County Developments Ltd. (Conservation)		68		68					68
Lancashire County Developments Ltd. (Kirkham)	50			25	75				100
Lancashire County Developments Ltd. (LAA)			3	3					3
Value & Income Trust Plc.			2	2					2
Heritage Lottery Fund - Ashton Gardens @ 79.77%	1,415	-258	-997	160	1,224				1,384
Big Lottery (Play Equipment)	135		-135	0	135				135
	1,820	-205	-1,147	443	1,444	0	0	0	1,887

CAPITAL PROGRAMME INDICATOR KEY

Key To Finance Indicators

A	Capital Receipts
A1	- Right to Buy Receipts
A2	- Target Asset Sales
A3	- Sale of Town Hall (part)
B	Use of Earmarked Reserves
C	Leasing
D	Grants
D1	- Ashton Gardens Grant
D2	- Disabled Facilities Grant
D3	- Housing Grant Grant
D4	- St Annes Regeneration (NWDA)
D5	- Big Lottery (play equipment)
D6	- LCDL (CARS)
D7	- LCDL (Kirkham Building Refurbishment)
D8	- Tourist Board
E	Contributions
E1	Value & Income Trust Plc.
F	Contribution from Revenue
G	Borrowing

The Prudential Indicators 2008/09 to 2011/12

1. Introduction

1.1 The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce Prudential Indicators. This report revises the indicators for 2008/09, 2009/10, and 2010/11, and introduces new indicators for 2011/12. Each indicator either summarises the expected activity or introduces limits upon the activity.

1.2 Within the overall prudential framework, there is an impact on the treasury management activity. As a consequence, the Treasury Management Strategy for 2009/10 to 2011/12 is included as Appendix H to complement the indicators, and this appendix includes the prudential indicators relating to the treasury activity.

2. Capital Expenditure Plans

2.1 The Council's capital expenditure plans are summarised in Appendix F (Capital Programme Quarter 3 Update 2008/09) and this forms the first of the Prudential Indicators.

2.2 The key risks to the plans are that the level of Government support has been estimated and is therefore subject to change. Similarly, some of the estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale.

3. The Council's Borrowing Need (the Capital Financing Requirement)

3.1 The second prudential indicator shown in Table 1 is the Council's Capital Financing Requirement (CFR). The CFR represents the Council's underlying need to finance its current and historic capital expenditure.

3.2 The Council is required to repay an element of the accumulated capital spend each year through a charge to the Revenue Budget known as the Minimum Revenue Provision (MRP). Communities & Local Government (CLG) Regulations require Council to approve an MRP statement in advance of each year. The Council is recommended to approve the following MRP statement:

- i) For capital expenditure incurred before 1 April 2008 or which in the future will be supported capital expenditure (e.g. funded by grant, capital receipt, etc) – Existing practice outlined in the former CLG legislation based on the adjusted CFR.
- ii) From 1 April 2008 the MRP policy for all unsupported borrowing (i.e. Prudential borrowing) will be based on the estimated asset life in accordance with the Regulations.

Table 1 Capital Financing Requirement (CFR)

	2008/09 Revised £'000	2009/10 Estimate £'000	2010/11 Estimate £'000	2011/12 Estimate £'000
Total CFR	1,315	1,932	1,952	2,048

The CFR reduces due to the Minimum Revenue Provision (MRP) and increases by Prudential Borrowing as approved in the Capital Programme.

3.3 To facilitate the prudent financing of the capital programme, it is expected that capital receipts will be used to finance the Capital Programme as a first priority before Prudential Borrowing is used. This ensures that the Council's interest payments and Minimum Revenue Provision (MRP) are kept to a minimum.

4. Limits to Borrowing Activity

4.1 The Council needs to ensure that its total borrowing net of any investments does not exceed the CFR. Table 2 below shows that the Council will be able to comply with this requirement.

Table 2 Net External Borrowing

	2008/09 Revised £'000	2009/10 Estimate £'000	2010/11 Estimate £'000	2011/12 Estimate £'000
Gross Borrowing	1,340	1,670	1,670	1,174
Investments	0	0	0	0
Net borrowing	1,340	1,670	1,670	1,174
CFR	1,315	1,932	1,952	2,048
Difference (note 1) (i.e. headroom within CFR)	-25	262	282	874

Note 1: Operational boundary breached – it is not significant if the operational boundary is breached temporarily on occasions due to variations in cash flow.

4.2 A further two prudential indicators control the overall level of borrowing. These are:

- The Authorised Limit for External Debt
- The Operational Boundary for External Debt

4.3 The Council is asked to approve the following Authorised Limit and Operational Boundary in Table 3.

Table 3 Operational Boundary & Authorised Limit for External Debt

	2008/09 Revised £'000	2009/10 Estimate £'000	2010/11 Estimate £'000	2011/12 Estimate £'000
CFR	**1,315**	**1,932**	**1,952**	**2,048**
Expected over/(under) borrowing (note 1)	25	(262)	(282)	(874)
Short term borrowing	1,500	1,500	1,500	1,500
Gross Borrowing	**2,840**	**3,170**	**3,170**	**2,674**
Other Long Term Liabilities	2,375	2,375	2,375	2,375
Operational Boundary (note 2)	**5,215**	**5,545**	**5,545**	**5,049**
Contingency (note 3)	4,185	4,355	4,334	4,334
Authorised Limit (note 4)	**9,400**	**9,900**	**9,879**	**9,383**

Note 1: Expected over/(under) borrowing – this arises from Treasury Management decisions made to vary borrowing dates to minimise interest costs.

Note 2: Operational Boundary for External Debt - is based on the expected maximum external debt during the course of the year. It is not a limit.

Note 3: Headroom for unexpected cash movements / debt rescheduling.

Note 4: The Authorised Limit for External Debt represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Council. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

5. Affordability Prudential Indicators

5.1 Prudential Indicators are also required to assess the affordability of capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's finances. The Council is asked to approve the following indicators.

5.2 Actual and estimates of the Ratio of Financing Costs to Net Revenue Stream – This indicator identifies the trend in the cost of capital (borrowing costs net of investment income) against the net revenue stream, as shown in Table 4.

Table 4 Ratio of Financing Costs to Net Revenue Stream

	2008/09 Revised	2009/10 Estimate	2010/11 Estimate	2011/12 Estimate
Ratio	-2%	1%	1%	0%

5.3 Financing costs increase in later years as the returns on investments have reduced significantly due to the fall in the Base Rate from 5.25% in April 2008 to 1% in February 2009.

5.4 Estimates of the incremental impact of capital investment decisions on the Council Tax – This indicator identifies the revenue costs and income associated with new schemes (i.e. which require Prudential Borrowing) introduced to the capital programme since the final outturn position for 2007/08. This impact includes both the cost of borrowing made at Budget Council on 3rd March 2008 and Minimum Revenue Provision (MRP).

Table 5 Incremental Impact of additional Capital Investment borrowing decisions on the Band D Council Tax

	Revised 2009/10	Estimate 2010/11	Estimate 2011/12
Current cost of borrowing on Capital Programme	£2.30	£2.30	£2.30
Incremental changes to Council Tax as a result of new borrowing	£1.45	£1.45	£1.55
Council Tax Band Total Cost of Borrowing	£3.75	£3.75	£3.85

Treasury Management Strategy 2009/10 – 2011/12

1.1 The Treasury Management service is an important part of the overall financial management of the Council's affairs. The prudential indicators in Appendix G consider the affordability and impact of capital expenditure decisions, and set out the Council's overall capital framework. The treasury function considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets the balanced budget requirement. There are specific treasury prudential indicators included in this strategy which require approval.

1.2 The Council's treasury activities are regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). This Council adopted the Code of Practice on Treasury Management on 01/12/03, and as a result adopted a Treasury Management Policy Statement (01/12/03). This adoption meets the requirements of the first of the treasury prudential indicators.

1.3 A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury function. A further treasury report is produced after the year end to report on actual activity for the year.

1.4 This strategy covers:

- The Council's debt and investment projections
- The expected movement in interest rates
- The Council's borrowing and investment strategies
- Treasury prudential indicators
- Specific limits on treasury activities

2. Debt and Investment Projections 2008/09 – 2011/12

2.1 Table 1 below shows the expected change in debt and investment balances over the next three years. The figure for debt at 31st March 2009 includes £1.5M for short-term borrowing (and £1.5M for short-term borrowing for 2009/10 onwards) that is normally required at the end of the year when the Council's cash balances are depleted.

Table 1 Forecast Treasury Position

	2008/09 Revised £'000	2009/10 Estimate £'000	2010/11 Estimate £'000	2011/12 Estimate £'000
Debt at 31 March	2,840	3,170	3,170	2,674
Investments at 31 March	0	0	0	0

2.2 The related impact of the movements in Table 1 on the revenue budget are shown in Table 2.

Table 2 Forecast Interest

Revenue Budget	2008/09 Revised £'000	2009/10 Estimate £'000	2010/11 Estimate £'000	2011/12 Estimate £'000
Interest payable on Borrowing	45	73	34	34
Investment Income	303	25	50	120

3. Expected Movement in Interest Rates (Advice by Sector)

3.1 The expected movement in interest rates is shown in Table 3

	Q/E1 2009	Q/E2 2009	Q/E3 2009	Q/E4 2009	Q/E1 2010	Q/E2 2010	Q/E3 2010	Q/E4 2010	Q/E1 2011	Q/E2 2011	Q/E3 2011	Q/E4 2011	Q/E1 2012
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.75%	2.50%	3.25%	3.75%	4.00%
5yr PWLB rate	2.60%	2.45%	2.30%	2.30%	2.30%	2.50%	2.85%	3.15%	3.65%	3.95%	4.20%	4.45%	4.60%
10yr PWLB rate	3.60%	3.35%	3.20%	3.20%	3.25%	3.35%	3.60%	3.95%	4.30%	4.55%	4.80%	4.85%	4.90%
25yr PWLB rate	4.15%	4.05%	4.00%	4.00%	4.10%	4.15%	4.35%	4.45%	4.60%	4.85%	4.95%	5.05%	5.10%
50yr PWLB rate	4.10%	3.95%	3.90%	3.90%	3.95%	4.00%	4.05%	4.25%	4.45%	4.70%	4.85%	4.95%	5.05%

3.2 The above rates are provided by the Council's Treasury Advisors, Sector. Uncertainty over future interest rates movements increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its treasury strategy.

4. Borrowing Strategy

4.1 Based on the current interest rate forecasts, the Council is postponing borrowing and instead running down in-house investment balances. This reduces counterparty risk and helps mitigate against the expected fall in investment returns.

4.2 The Council may consider debt repayment depending on the prevailing interest rates.

4.3 New and replacement borrowing will be considered and undertaken in line with advice from treasury consultants on the optimum timing, and taking into account the uncertainty in the interest rate forecast.

5. Investment Strategy

5.1 Expectations on shorter-term interest rates, on which investment decisions are based, show a likelihood of the current 1% Bank Rate reducing in 2009.

5.2 The current banking crisis gives rise to operational difficulties when placing investments. Ideally investments would be invested longer to secure better returns, however, uncertainty over counterparty creditworthiness suggests shorter dated investments would provide better security.

5.3 A counterparty list is maintained in compliance with the counterparty criteria and limits and is set out in Tables 6, 7, and 8. The criteria for choosing counterparties as set out in Tables 6, 7, and 8 provides a sound approach to investment in "normal" market conditions. Whilst Members are asked to approve this base criteria in Tables 6, 7, and 8, under the exceptional current market conditions, the Director of Finance has temporarily restricted investment activity of the in-house treasury function as follows:-

- investments must be with counterparties considered of the highest credit quality
- investments limited to £1M per transaction (except for investments to HM Treasury and other Local Authorities)
- investments are restricted to two weeks
- all investments are personally authorised by the Director of Finance or the Assistant Director/Head of Finance

These restrictions will remain in place until the banking system returns to "normal" conditions.

The Council may also utilise Government backed money market funds that invest predominantly in UK Government debt. These aim to offer a high level of security but there is an in inevitable trade off with a lower yield. They provide instant access and the investment can be redeemed immediately.

6. Treasury Management Prudential Indicators and Limits on Activity

6.1 There are four treasury prudential indicators. The purpose of these prudential indicators is to manage risk and reduce the impact of an adverse movement in interest rates. The indicators are:

- Upper limits on variable interest rate exposure – This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments.
- Upper limits on fixed interest rate exposure – Similar to the previous indicator this covers a maximum limit on fixed interest rates.

- Maturity structures of borrowing – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing at the same time, and are required for upper and lower limits.
- Total principal funds invested for greater than 364 days – These limits are set to reduce the need for an early sale of an investment, and are based on the availability of funds.

6.2 The Council is asked to approve the Prudential Indicators in Tables 4 and 5.

Table 4 Interest Rate Exposures & Maximum Principal Sums invested >364 days

	2009/10 Estimate £000	2010/11 Estimate £000	2011/12 Estimate £000
Limits on fixed interest rates based on debt	3,170	3,170	2,674
Limits on variable interest rates based on debt (50% of debt)	1,585	1,585	1,337
Principal sums invested > 364 days (50% of long-term investments)	0	0	0

Table 5 Maturity Structure of Fixed Interest Rate Borrowing 2009/10

	Upper Limit	Lower Limit
Under 12 months	20%	0%
12 months to 2 years	100%	0%
2 years to 5 years (Note 1)	100%	0%
5 years to 10 years	100%	0%
10 years and above	100%	0%

Note 1: Increase in upper limit – due to a PWLB loan maturing in March 2011.

7. Performance Indicators

7.1 The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are historic indicators, as opposed to the prudential indicators, which are predominantly forward looking.

7.2 The returns for internal investments are monitored against the 7 day LIBID (London Inter-Bank Bid Rate), and investment income and interest payable is monitored against budget. The results of these will be reported in the Treasury Annual Report for 2008/09.

8. Investment Counterparty and Liquidity Framework

8.1 The primary principle governing the Council's investment criteria is the security of its investments, although the return on the investment is also a key consideration. The Council will also ensure:

- A counterparty list is maintained in compliance with the counterparty criteria and limits and is set out in Table 6. The Council receives credit rating advice from its Treasury advisors as and when ratings change and the Council's list of counterparties is updated immediately. The rating criteria will be applied by using the lowest common denominator method of selecting counterparties and applying limits. This means that the Council will apply the minimum criteria available from across all the rating agencies.

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below and the limits are set out in Tables 6 and 7.

8.5 **Specified Investments** – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is small. These would include investments with:

1) The UK Government (such as the DMADF)
2) Supranational bonds of less than one year's duration (with the European Investment Bank)
3) A local authority, parish council or community council
4) Pooled investment vehicles (e.g. money market fund) rated AAA by Standard and Poor's, Moody's or Fitch rating agencies
5) A body that has been awarded a high credit rating by a credit rating agency (e.g. bank or building society).

The criteria and limits for investing with Specified Investments are set out in Table 7.

8.6 **Non-Specified Investments** – These investments are any other type of investment not defined as specified above, and investments for a period greater than one year. These include:

1) Supranational Bonds greater than 1 year to maturity (with the European Investment Bank)
2) Gilt edged securities
3) A body which has been provided with an EU government issued guarantee for wholesale deposits within specific timeframes. Where these guarantees are in place and the government has an AAA sovereign long term rating these institutions will be included within the Council's criteria until such time as the guarantees are withdrawn. Monies will only be deposited within the timeframe of the guarantee.
4) A body which is an Eligible Institution for the HM Treasury Credit Guarantee Scheme announced on 13 October 2008 (e.g. Royal Bank of Scotland).

The criteria and limits for investing with Non Specified Investments are set out in Table 8.

<u>Table 6 Counterparty Criteria</u>

	Fitch Ratings				Moody's Ratings			Standard & Poor's Ratings	
	Short Term	Long Term	Individual	Support	Short Term	Long Term	Strength	Short Term	Long Term
UK Banks and wholly owned subsidiaries	F1+	AA-	B/C	3	n/a	n/a	n/a	A1+	AA-
Other UK Banks and wholly owned subsidiaries	F1	A+	B/C	3	n/a	n/a	n/a	A1	A+
EC Member State Banks	F1	A+	B/C	3	n/a	n/a	n/a	A1	A+
Building Societies	F1	A	C	3	P-1	A2	C	A1	A
Other Local Authorities	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Debt Management Office (AAA rating)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Money Market Funds (AAA rating)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Note – The counterparty criteria approved by Council on 03/03/08 has been amended as follows:

1) Ratings have been added for Standard & Poor's rating agency
2) The ratings for Building Societies have been upgraded and the reference to asset size removed
3) The lowest common denominator method of applying criteria will be applied, i.e. if a bank is rated by two agencies, one meets the Council criteria and the other does not, the bank will not meet the Council's lending criteria.

Table 7 Counterparty Criteria – Specified Investments

Counterparty Criteria Specified Investments	Maximum Exposure £M	Group Exposure £M	Time Limit Months
UK Banks and wholly owned subsidiaries	1	2	12
Other UK Banks and wholly owned subsidiaries	1	2	12
EC Member State Banks	1	2	12
EC Building Societies	1	2	12
Other Local Authorities	5	n/a	12
Debt Management Office (AAA rating)	5	n/a	12
Money Market Funds (AAA rating)	5	n/a	n/a (instant access)

Note – The criteria for Specified Investments approved by Council on 29/02/08 has been amended as follows:

1) The maximum exposure for all banks and building societies has been reduced by £2m. .
2) The maximum exposure for investments to other Local Authorities has been increased by £2m.
3) Investments to AAA rated Money Market Funds has been added

Table 8 Counterparty Criteria – Non Specified Investments

Counterparty Criteria Non Specified Investments	Maximum Exposure £M	Group Exposure £M	Time Limit Years	Note
Supranational Bonds	1	n/a	2	
Gilt Edged Securities	1	n/a	2	
Body with Government Issued Guarantee (EU only)	2	2.5	1	1
Body which is an Eligible Institution	2	2.5	1	2

1) Monies will only be deposited within the timeframe of the Government guarantee, and the sovereign rating of the country providing the guarantee must be rated 'AAA' by Fitch, Moody's, and Standard & Poor's rating agencies.
2) A body which is eligible for the HM Treasury Credit Guarantee Scheme initially announced on 13 October 2008.