

RIBBLE VALLEY BOROUGH COUNCIL

REPORT TO SPECIAL POLICY AND FINANCE COMMITTEE

Agenda Item No 9

meeting date: 12 FEBRUARY 2013
title: MEDIUM TERM FINANCIAL STRATEGY
submitted by: DIRECTOR OF RESOURCES
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1 PURPOSE

1.1 To approve the Council's Medium Term Financial Strategy 2013/14 to 2015/16.

2 BACKGROUND

2.1 The Council has a Medium Term Financial Strategy (MTFS) that is updated annually.

2.2 The MTFS is the Council's key financial planning document. It aims to provide the Council with an assurance that the Council's spending plans are affordable over the Medium Term (3 years).

2.3 It includes a three year budget forecast and provides the financial foundation for the delivery of the Council's policy priorities.

3 MEDIUM TERM FINANCIAL STRATEGY

3.1 The attached MTFS includes sections covering:

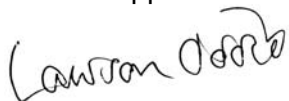
- Policy and Service Context
- Demographic Context
- Financial Context
- National Context and Other External Factors
- Partnership Working and External Funding
- A Three Year projection of Revenue Expenditure
- Capital Programme
- Balances and Reserves
- Risk Assessment and Sensitivity
- Links to Ambitions and Priorities

3.2 The MTFS reflects the proposed Revenue Budget for 2013/14 and the suggested Forward Capital programme, which are covered in separate reports elsewhere on the agenda. It will be amended if either the Revenue Budget or Capital Programme are changed.

3.3 Finally and importantly the MTFS forms an integral part of the Council's financial planning process and should be read in conjunction with the two reports mentioned above.

4 RECOMMENDED THAT COMMITTEE

4.1 Approve the Medium Term Financial Strategy for 2013/14 to 2015/16.



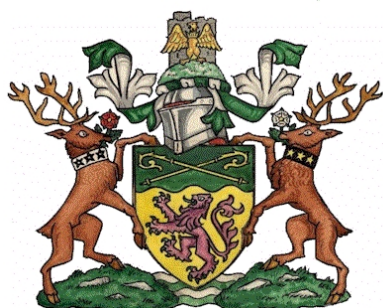
HEAD OF FINANCIAL SERVICES



DIRECTOR OF RESOURCES

PF15-13/LO/AC
6 February 2013

February 2013



Ribble Valley Borough Council

Medium term financial strategy

2013/14 to 2015/16

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1 Introduction

- 1.1 The medium term financial strategy (MTFS) is the Council's key financial planning document. It aims to provide the Council with an assurance that the Council's spending plans are affordable over the medium term (3 years).
- 1.2 The main objectives of the medium term financial strategy are
 - to look to the longer term to help plan sustainable services and budgets and help ensure that the Council's financial resources are sufficient to support delivery of Council Plan priorities.
 - to provide a single document to communicate the financial context, aims and objectives to staff and stakeholders and support working with partners.
- 1.3 The financial strategy includes a three-year budget forecast that is reviewed annually. The medium term financial forecast builds on previous medium term strategies to provide the financial foundation for delivery of the Council's policy priorities and to meet the identified performance and resource issues.
- 1.4 This strategy covers the period 2013/14 to 2015/16 and sets out the resource issues and principles that shape the council budget.

2 Policy and Service Context

- 2.1 The Council's Corporate Strategy provides the overall direction for the medium term financial strategy and the annual budget.
- 2.2 The Corporate Strategy sets out the strategic direction of the Council, providing a focus to ensure that the services the council delivers meet the needs of its communities. It is one of the Council's most important documents setting out those areas identified for focused improvement over future years.
- 2.3 The Council's Vision continues to be that we aim to ensure that Ribble Valley will be:

Our Vision

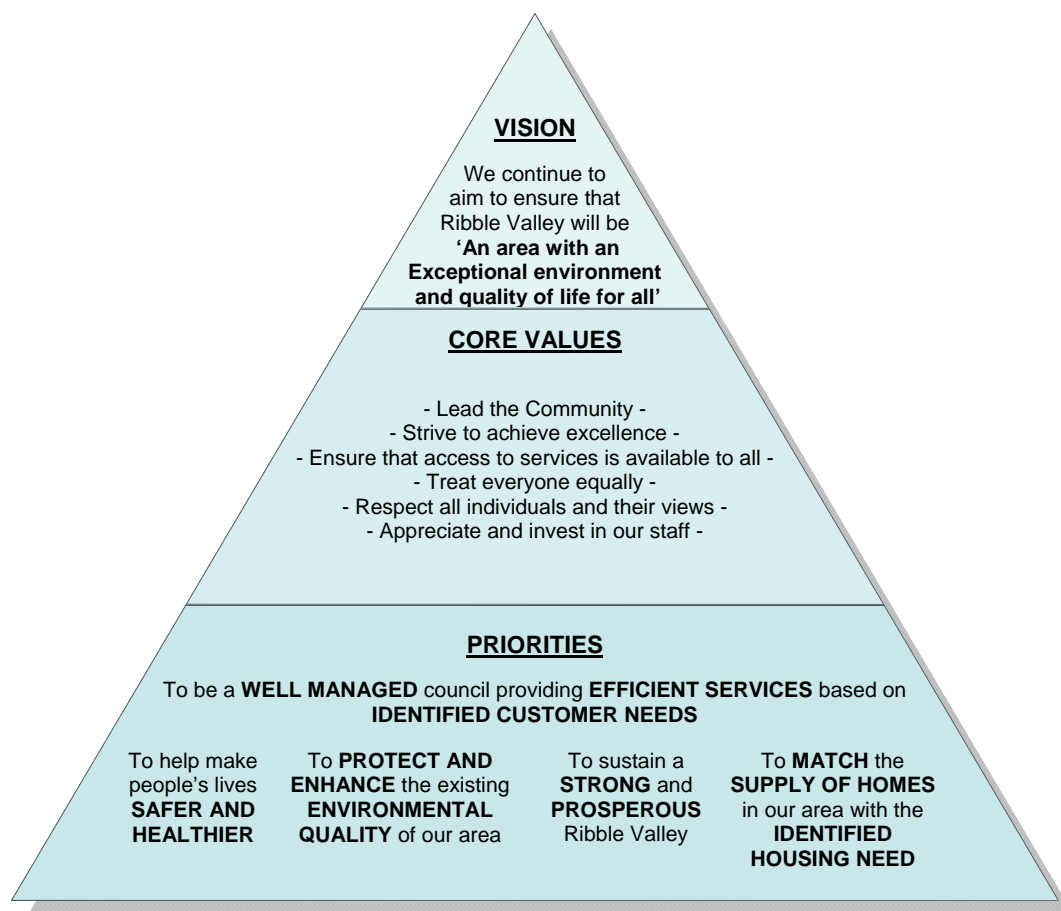
An area with an exceptional environment and quality of life for all; sustained by vital and vibrant market towns and villages acting as thriving service centres meeting the needs of residents, businesses and visitors.

- 2.4 We believe that this Vision reflects our shared aim for the Borough, which has the highest quality of environment for those who live in and visit the area. It recognises that people must have a high quality of life; that suitable homes are available to meet their diverse needs and that they should be safe and feel safe. People should also be able to access the best services without having to travel long distances to receive them.
- 2.5 Key to the Council's Corporate Strategy is the Mission Statement of the Council. The Council has adopted the following statement that sets out its role and responsibilities in relation to the communities it exists to serve:

Mission Statement

The Council will provide high quality, affordable and responsive public services that develop the social and economic well being of the Borough whilst safeguarding the rural nature of the area

- 2.6 The role of the Council's financial planning process is to support the achievement of the Council's strategic goals, Corporate Strategy.
- 2.7 In order to deliver its Vision and provide a focus for how it delivers services, the Council has agreed a set of five corporate priorities. The Council's priorities are deliberately limited to focus attention over the life of the Corporate Strategy. Each priority has a number of objectives, underlying actions, and key measures of success, which should allow progress towards the achievement of the priority to be monitored. They are expanded upon in the supporting Corporate Action Plan.
- 2.8 Above all **'We aim to be a well-managed Council providing efficient services based on identified customer needs'** overarches all of our priorities, whilst recognising the importance of securing a diverse, sustainable economic base for the Borough. The priorities are driven by local needs with consideration to national priorities.



3 **Demographic Context**

Locality

- 3.1 Ribble Valley is in the County of Lancashire bordering neighbouring councils in Pennine Lancashire, Craven District Council in North Yorkshire, South Ribble, Preston, Wyre and Lancaster Borough Councils. The administrative centre for the district is the historic market town of Clitheroe. The industrial and commercial centre for the west of the borough is the town of Longridge.
- 3.2 The remaining area is mainly rural, ranging from large villages to small hamlets. Some settlements are accessible along the A59 corridor; others are more remote from services and public transport. Along with ancient woodland, biological heritage sites, conservation areas and sites of special scientific interest, two thirds of Ribble Valley is part of the Forest of Bowland Area of Outstanding Natural Beauty (AONB).

Local Economy

- 3.3 Unemployment is below the national and regional averages and the third lowest in the North West (at 4.0% compared with the national average of 7.9%)¹. Earnings are above the national average.
- 3.4 Given the rural nature of the area, it is not surprising that agriculture and tourism are important employers. However, recent years have seen major restructuring, within the agricultural/land-based sector in particular. The tourism sector accounts for over 10% of employment, and it is estimated that the total spent by tourists in Ribble Valley each year is in excess of £19.5 million. Additionally there are estimated to be around 2,500 jobs in tourism-related businesses.
- 3.5 One of the largest employment sectors in Ribble Valley is manufacturing, which accounts for 26.2%² of employment within the borough, and is represented by major national and multi-national companies such as Castle Cement, Johnson Matthey, and BAe Systems. The relatively small number of large employers is complemented by an above average presence of small companies employing 1-4 employees.
- 3.6 A survey undertaken in 2001 showed that Ribble Valley has the second most skilled population in the country after the City of London. However, the survey masks the fact that many of these well-qualified people in high-earning, senior positions commute daily out of the borough, and live in the area because of the high quality environment and the quality of life it offers. This has had the effect of forcing up the price of houses within the borough, putting them well out of the reach of young people and first time buyers. The mean house price sale in Ribble Valley as at July-September 2012 was £225,890, with an average terrace house price sale of £142,076.³ The annual change in house prices fell by 0.8%. Regionally the mean house price sale was £159,400 over the same period.

Resident Population and Projections

- 3.7 According to the ONS Census figures, the total resident population of the Borough reached 57,100⁴ during 2011. Life expectancy within the Ribble Valley is currently 79 for males and 83.3 for females⁵. According to ONS projections, the resident population of the Borough is predicted to increase by an additional 2,900 people over the next few years to reach a total of 60,000 Borough residents by 2021.⁶ Migration accounts for all of the population growth as projections show fewer births than deaths in the Borough.
- 3.8 In 4 wards there has been an increase in population of more than 15% since 2001 – Whalley (41.85%), Billington and Old Langho (31.62%), Aighton, Bailey and Chaigley (18.6%) and Gisburn and Rimington (15.26%). Two wards have seen a population decrease over the same period – Edisford and Low Moor (-1.21%) and Langho (-0.78%).⁷
- 3.9 Population density across the Borough as a whole averages 1 person per hectare. This is far lower than the overall England average of 4.1 persons per hectare and the North West average of 5 persons per hectare.⁸
- 3.10 From the 2011 Census 97.8% of the borough is recorded as White. There has been a small population increase in ethnic groups since 2001.⁹ There are no geographical areas of the borough where there is a significant community of non-white ethnic groups.

¹ ONS – NOMIS Labour Market Statistics January 2013 (October 2011 to September 2012)

² NOMIS - ONS annual business inquiry employee analysis 2008

³ Land Registry Data – July–September 2012

⁴ Office for National Statistics 2011 Census

⁵ Ribble Valley 2012 Health Profile produced by the English Public Health Observatories

⁶ Office for National Statistics interim 2011-based Subnational Population Projections (Sept. 2012)

⁷ Comparison of 2001 Census and 2007 mid year projected population – ward quinary (experimental stats)

⁸ Office for National Statistics Census 2011 – Population density

⁹ Office for National Statistics Census 2011 – Ethnicity

Ribble Valley	White		Mixed		Asian		Black		Other	
	2011	2001	2011	2001	2011	2001	2011	2001	2011	2001
	97.8	98.4	0.7	0.4	1.4	1.0	0.1	0.1	0.1	0.1

3.11 Between 2002/03 to 2005/06 the highest numbers of people registering for National Insurance in Lancashire were from Poland (around 3,500), India (almost 2,000) and Pakistan (1,800).¹⁰ The 2011 Census confirms that the highest percentage of people with a country of birth not being the United Kingdom, were from Poland.¹¹

Age Structure (Older Persons)

3.12 Within Ribble Valley 20.2%¹² of the population (11,531) has reached retirement age and 18% have retired (compared to 16.5% in 2001).¹³ The retired population has increased since the Census in 2001. There are now significantly more retired people living in the borough compared with the number of children (10,580 aged 0-15 years)¹⁴. The 2011 Census shows that there are 1,479 people aged over 85 living in the borough, which is an increase of 21% since 2001 (1,168).

3.13 The highest proportion of people at retirement age can be seen in Mellor (45.93%), with 4 other wards having over 40% of the population at retirement age – Clayton-le-Dale with Ramsgreave (45.82%), Waddington and West Bradford (45.48%), Littlemoor (44.17%), and Langho (41.56%).¹⁵

Age Structure (Young Persons)

3.14 There are 9,789 children (aged 0-14) living in the borough. This is 113 fewer than 10 years ago (9,902),¹⁶. Within this age group the number of pre-school children (aged 0-4) fell by 3.57% between 2004 and 2009 and currently stands at 2,881. The number of primary school children (aged 5-9) fell by 2.9% over the same period and currently stands at 3,103 and the number of high school children (aged 10-15) also declined and now stands at 4,596.¹⁷

3.15 Within the borough several wards have seen large declines in the number of children (aged 0-15) – Dilworth (-18.82%), Gisburn and Rimington (-12.68%) and Salthill (-12.45%). However, some wards have seen substantial increases – Whalley (54.95%) and Billington and Old Langho (50.89%).¹⁸

Age Structure (Working Age)

3.16 There are currently 41,285 people in the working age population (age 16 to retirement age) of the Borough.¹⁹

3.17 Whalley (45.83%) has seen the largest increase in the working age population (age 18 to retirement age) in the borough between 2001 and 2007. Two other wards have also seen substantial increases – Billington and Old Langho (24.77%) and Aighton, Bailey and Chaigley (22.97%). Several wards have seen notable declines – Langho (-5.01%), St Mary's (-2.53%) and Read and Simonstone (-1.82%).

¹⁰ Analysis of National Insurance Number Registrations by non-UK Nationals, by country of origin, in Lancashire County and the Districts: 2002/03 – 2005/06 – A report produced by LCC's Research and Intelligence Team

¹¹ Office for National Statistics Census 2011 – Country of birth detailed

¹² Office for National Statistics Census 2011 – Age Structure

¹³ Office for National Statistics Census 2011 – Economic activity

¹⁴ Office for National Statistics Census 2011 – Age structure

¹⁵ Office for National Statistics 2007 mid-year projection - ward quinary (experimental stats)

¹⁶ Comparison of ONS mid 2004 and mid 2010 projected population

¹⁷ Comparison of ONS mid 2004 and mid 2009 projected population – selected ages and Census 2011

¹⁸ Comparison of ONS Census 2001 and mid 2007 projected population – ward quinary (experimental stats)

¹⁹ ONS Census 2011 – Economic Activity

Housing and Households

- 3.18 In terms of housing tenure, 76.6% of dwellings are owner occupied, 13.7 % are privately rented and 7.6% are social rented. There are currently approximately 365 long-term vacant private dwellings, a figure that we are taking action to reduce.
- 3.19 According to household projections there were 25,011 households within the Borough at the end of 2012. The number of borough households is expected to grow to 29,000 by 2028 at an estimated increase of 250 households per annum.
- 3.20 The average size of Borough households was 2.3 persons in 2011, compared to a projected figure of 2.18 persons per household by 2028. The declining household size is directly linked to the requirements for new dwellings.

Social Deprivation (Index of Multiple Deprivation)

- 3.21 The IMD 2010 provides measures of deprivation at local authority level, ranking the deprivation of 354 local authority districts in England, where 1 is the most deprived and 354 is the least deprived. The rankings for the Ribble Valley are summarised below:

Rank out of 354	
Average Score	290
Extent	294
Local Concentration	312
Income Scale	323
Employment Scale	305

Health

- 3.22 According to the Ribble Valley Health Profile 2012²⁰, the health of people in Ribble Valley is generally better than the England average. Life expectancy for men and women is higher than the England average. Over the last 10 years, all-cause mortality rates have fallen. The early death rate from heart disease and stroke has fallen and is better than the England average.
- 3.23 However, there are significant health problems. Deprivation is lower than average, however about 600 children live in poverty. About 12.2% of Year 6 children are classified as obese, this is lower than the average for England. Levels of breast feeding initiation and smoking in pregnancy are worse than the England average with 21.6% of expectant mothers smoke during pregnancy.
- 3.24 When looking at alcohol consumption in the borough 24.3% of people aged 16 or over are classified as having 'increasing and higher risk drinking' compared to the England average of 22.3%. The rate of road injuries and deaths of 73.4 per 100,000 population is significantly higher than the England average of 44.3 per 100,000 population.

4 Financial Context

- 4.1 More so now than ever, it is very important for the Council to maintain a healthy level of balances to cover for unforeseen events and also provide a stable level of resources for future planning. The creation of earmarked reserves enables flexibility in approach to financial and service pressures, allowing the council to respond in a timely manner.
- 4.2 At the end of the 2011/12 financial year the Council further built its financial resilience by strengthening the level of earmarked reserves to meet the challenging period that it was entering, and also to meet known shorter term commitments
- 4.3 The level of General Fund Balances and Earmarked Reserves at the 31 March 2012 totalled just over £5.789 million.
- General Fund Balances: £1.616m
 - Earmarked Reserves: £4.173m

²⁰ Produced by the Association of Public Health Observatory on behalf of the Department of Health

- 4.4 The level of reserves and balances has been reviewed and found to be more than adequate to meet the Council's projected revenue expenditure. This review gave full consideration to the future service needs and pressures following the recently completed service reviews and expenditure that may be needed in order to achieve future savings or efficiencies. It is recommended that general fund balances are not allowed to fall below £700,000.
- 4.5 The level of the Council's net expenditure (expenditure net of fees and charges, interest and movements in balances) continues to fall as a result of the reducing level of support from the Government. With council tax levels frozen, alternative sources of financial support for council services is limited. As a result a fundamental review of all council services and the management structure was undertaken during the 2010 and 2011 calendar years in order to reduce the cost of council services. A net expenditure comparison is shown below:

	2010/11 Actual £	2011/12 Actual £	2012/13 Revised Estimate £	2013/14 Original Estimate £
Net Expenditure	7,275,847	6,368,431	6,048,282	5,899,047
Percentage reduction from preceeding year		12.47%	5.03%	2.47%

- 4.6 The level of net expenditure needed in future years will also be very sensitive to changing income levels from investment returns and fees and charges, both of which have been affected substantially by the poor economic climate over the past few years.
- 4.7 A service review was completed in 2011 which achieved substantial savings of £635,160 in the 2012/13 budget and onward. This was the second phase of the review of the Council structure, the first of which was completed in 2010 and was the review of senior management. The first phase of the structure review achieved savings averaging £108,000 per annum over five years.
- 4.8 The council will continue to use General Fund balances prudently to subsidise the revenue budget over the medium-term, however longer-term it is important that the council looks to set its revenue budget with minimum support from its general fund balances.
- 4.9 Whilst the level of government support is known to continue to reduce in to 2014/15, the level of future Central Government support for 2015/16 onwards remains uncertain, particularly around the retention of business rates growth retention. This uncertainty strengthens the need for the council to maintain a healthy level of general fund balances over these uncertain times, and indeed a business rates volatility earmarked reserve will be created in order to cushion future fluctuations.
- 4.10 The level of overall capital reserves has been a matter of concern over recent years. These have been somewhat depleted. At the 31 March 2013 it is estimated that the capital reserve earmarked reserve will be above the minimum recommended level of £300,000 at £351,000 and will remain at that level over the life of the forward capital programme.

5 **National Context and Other External Factors**

The Local Government Finance Settlement (2013/14 – 2014/15)

- 5.1 On 19th December 2012 (following on from the Chancellor's Autumn Statement), the Secretary of State for Communities and Local Government announced a two-year settlement for local government covering 2013/14 and 2014/15.
- 5.2 The headline for this council was that provisional "spending power" (as defined by the Government) would reduce by 1.3% in 2013/14 and by a further 3.2% in 2014/15. However, when we compare the figures on a like for like cash basis the council will see a reduction of £288,000 in 2013/14 (8.9%) and a further £377,000 (12.7%) the year after.

Local Government Finance Settlement – Start-Up Funding Assessment (former Formula Grant)

Financial Year	£'000	Percentage Decrease from 2010/11 Adjusted
2013/14 – Confirmed	2,961	
2014/15 – Provisional	2,585	-12.7%

The Local Government Finance Act 2012

- 5.3 The Local Government Finance Act 2012 will enact Phase 1 of the Local Government Resource Review and takes forward proposals designed to encourage local economic growth, reduce the financial deficit and drive decentralisation of control over local government finance.
- 5.4 Within the detail of the Act are two aspects that have a significant impact on the Council's funding with effect from 2013/14:
- Local authorities will be able to retain a proportion of the Business Rates generated in their area, providing them with a strong financial incentive to promote local economic growth. This replaces the current national pooling system; and
 - A framework for the localisation of support for Council Tax in England is introduced, which gives councils increased financial autonomy while providing continued Council Tax support for some of the most vulnerable in society, including pensioners.

Autumn Statement and Office of Budget Responsibility – Economic and Fiscal Outlook

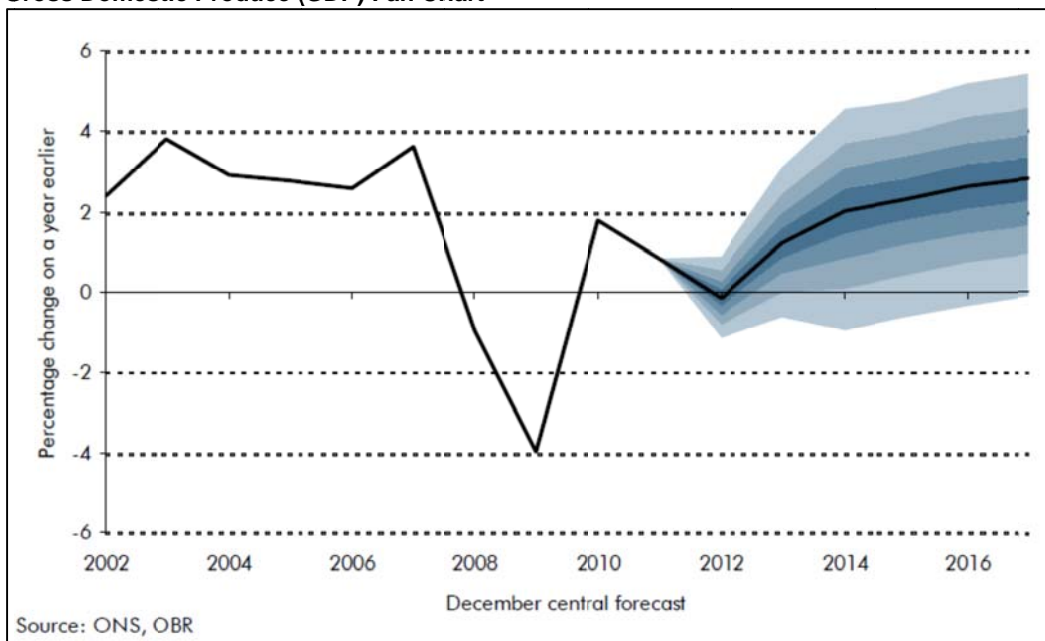
- 5.5 The Autumn Statement was presented to Parliament on 5 December 2012. Alongside the Autumn Statement, the Office of Budget Responsibility (OBR) released its latest Economic and Fiscal Outlook, containing the latest update on the economy and public finances.
- 5.6 The Chancellor set the scene in his Autumn Statement by saying that growth will be slower and borrowing higher than previously thought, but that "Britain is heading in the right direction", whilst the Executive Summary of the Full Statement stated that the UK economy was recovering from the most damaging financial crisis in generations, with the UK experiencing one of the deepest recessions of any major economy, and that the global recovery has been much slower than forecast.

5.7 A number of areas of progress were identified. Most notably:

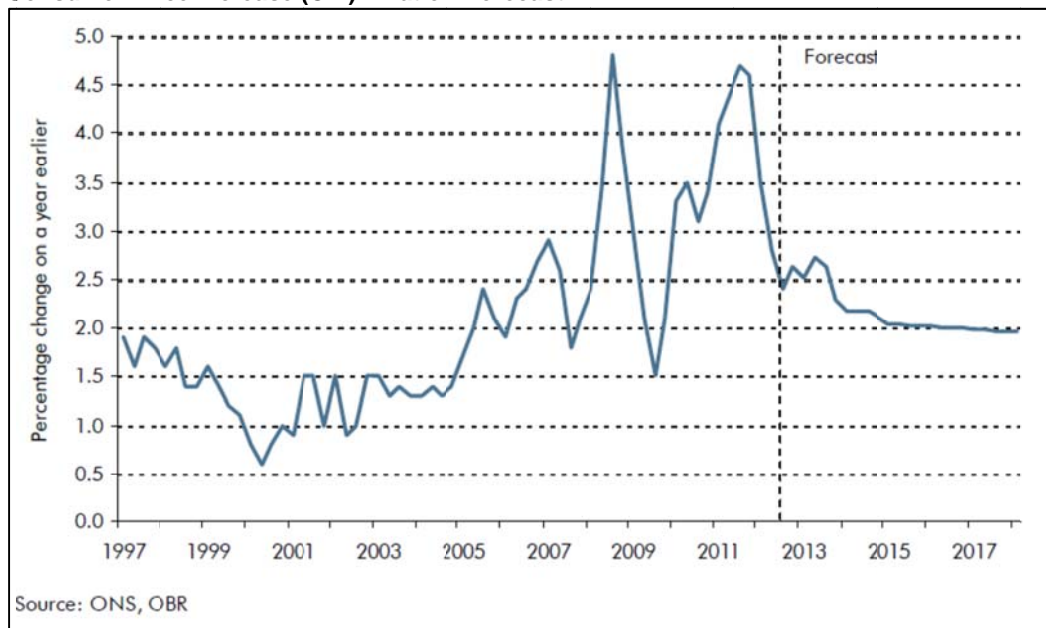
- The deficit has been reduced by a quarter over the two years since 2009/10
- An additional 1.2 million private sector jobs have been created since the first quarter of 2010
- Market interest rates have fallen to near record lows; and Cumulative debt interest payments from 2010/11 to 2015/16 are forecast to be £33 billion lower than expected at the June 2010 Budget.

5.8 The chart below presents the government's central growth forecast with a fan showing the range of possible different outcomes based purely on past official forecasting errors. The solid black line shows their median forecast, with successive pairs of lighter shaded areas around it representing 20 per cent probability bands. It suggests that there is a roughly 20 per cent chance that the economy will shrink again in 2013, judging from past forecasting errors.

Gross Domestic Produce (GDP) Fan Chart



Consumer Price Increase (CPI) Inflation Forecast



5.9 The above chart, published by the Office of Budget Responsibility (OBR) forecasts that the Consumer Price Index (CPI) will fall back to target, remaining close to 2 per cent from 2015 onwards. This assumes particularly that oil prices gradually fall back in line with prices implied by futures markets.

Other Factors

5.10 The continuing uncertainty surrounding the current economic downturn has substantially impacted on the council's resources, not least in the form of sustained reductions in returns on short-term investments. Additionally the council has seen reduced income levels from the fees and charges that the council sets, with the downturn mostly affecting income streams such as building regulations and land charges.

5.11 As the uncertainty of the economic climate continues such reduced income streams continue to impact on the council. The medium term financial strategy will therefore need to remain flexible to respond to any opportunities or threats that this external environment presents.

5.12 All known financial implications that are likely to arise from published strategies and plans across the council and other plans agreed with partners and other stakeholders have been considered in preparing this strategy.

5.13 This strategy contains the most up to date information at the time of drafting but the Council's financial position is dynamic. The Council faces a number of financial uncertainties that could affect the Council's financial position over the medium term, including:

- Central government policies;
- Changes in interest rates;
- Impact of market forces on costs;
- Financial implications of technology;
- Community expectations, potentially leading to demand for new or improved services.

6 Partnership Working and External Funding

- 6.1 The council is focused on working with partners in order to benefit the local communities and investigates opportunities for joint working with a wide range of partners.
- 6.2 The Council was a partner in the Lancashire Local Area Agreement (LAA), which was a process of agreeing community priorities for the county area based on district level community strategies and local priorities. Government reward funding was allocated to the LAA following achievement of the agreed performance targets. The community currently benefits from the Performance Reward Grant that has been received.
- 6.3 Specific partner funding or grant income is generally not assumed within the budget unless its allocation has been confirmed.
- 6.4 Key areas of partnership working within the borough at the time of producing this medium term financial strategy are noted below. However, the council remains keen to further the potential of working with other partners.

Partnership Working	Purpose
Community Safety Partnership	A partnership plan to address anti social behaviour, criminal activity, neighbourhood policing and alcohol harm awareness. Action days are organised by this group.
Lancashire Waste Partnership	To promote a culture whereby waste is recognised as a resource and there is acceptance of responsibility of minimising its production and maximising its recovery.
CRACS (Collaborative Research and Consultation Service)	A centralised research and consultation service to be utilised at partners convenience. Services include training to give colleagues skills and confidence to deliver research and consultation projects.
Ribble Valley Homes	The Council works with Ribble Valley Homes to provide housing services in the borough. Ribble Valley Homes is the largest registered social landlord operating in the borough and is the major provider of social housing.
Lancashire Enterprise Zone Partnership	A vehicle for supporting the delivery of the Lancashire Enterprise Zone. Comprising Ribble Valley, South Ribble and Fylde Borough Councils, Lancashire County Council and British Aerospace. The group meets fortnightly to coordinate putting in place statutory measures for delivering the project, maintaining close liaison between partners, co-ordinating links with the community and the Lancashire Economic Partnership.
Mid Lancashire Partnership	This group meets to co-ordinate activity in relation to Economic Development, Strategic Housing and Planning activities across the Mid Lancashire grouping of authorities, including South Ribble, Chorley, Preston, Lancaster, Ribble Valley and Lancashire County Council.
Children's Trust	Children's Trust has been established to take the strategic lead in the future development of services for children and young people. Within Lancashire, the structure includes a county-wide trust, cascading down to trust arrangements based on each district footprint.
Health and Wellbeing Boards	Health and Wellbeing Boards created within local government in an attempt to coordinate commissioning of NHS services, social care and health improvement.
Street Scene and Public Realm Agreement	The Engineering Services section works in partnership with Lancashire County Council to deliver locally a number of services under the Street Scene and Public Realm Agreement.

-
- 6.5 Aside from the financial support from the Government in the form of Start-Up Funding Assessment (former Formula Grant), the Council also receives grant funding for the provision of housing benefit payments to claimants within the borough. Payments are fully funded by grant from the government. The Council has budgeted to pay £7m in housing benefit payments to claimants per annum.
- 6.6 In the years prior to 2013/14 the council also received 100% grant from the government towards the payment of Council Tax Benefit. This has now been replaced in 2013/14 with a council Tax discount, which is operated within the Collection Fund. From 1 April 2013 funding from the government will be reduced by 10%, with the burden of this reduction falling on each precepting body. For this council it is anticipated that the cost of this reduction in funding will equate to approximately £21,760, which will be funded through Second Homes monies and a reduction in the benefit, or discount in future years, for working age claimants of 12% in the first year of operation, falling to 8.5% in subsequent years.
- 6.7 The council also receives an administration grant to help support the provision of service costs, which in 2013/14 will be approximately £213,500. This is a reduction of approximately £36,000 from that received in 2012/13.
- 6.8 Further financial support is received from the Government towards the administration of business rates and in 2013/14 the council has budgeted to receive approximately £85,000.
- 6.9 Substantial funding is received from the NHS East Lancashire towards the provision of healthy lifestyle services and the Exercise Referral Scheme service. In 2013/14 the council has budgeted to receive £91,170 towards the provision of this service. At the moment this funding is guaranteed until 31 March 2014, with uncertainty around future funding.
- 6.10 Government support of the capital programme comes in the form of Disabled Facilities Grant. The grant is received with very specific conditions and is used to part fund the disabled facilities grants that the Council award as part of the capital programme.
- 6.11 Over 2013/14 and 2014/15 the council will also receive £750,000 grant from the government towards the council's commitment to the retention of the weekly collection of residual waste. This will help finance vital elements of the council refuse collection service infrastructure.
- 6.12 All other external capital finance support is scheme specific and dependant on schemes included within the capital programme. There are currently no such schemes included in the capital programme for the next three years, however additional approvals for such schemes may take place over the coming period.

7 Initial Three Year Projections of Revenue Expenditure

- 7.1 The key aim of the MTFS is to develop a financial projection to determine the achievability and sustainability of the Council's planned service delivery over the next 3 years.
- 7.2 The Council has made a forecast of a three-year revenue budget based upon known commitments, inflationary pressures and including any significant expenditure and income items that are likely to arise. This forecast also includes estimates of resources from government grants and shows an indicative level of council tax.
- 7.3 The minimum amount of general fund balances has in the past been agreed at £700,000. The forecast within this Medium Term Financial Strategy keeps balances above this minimum, with a closing balance at 31 March 2016 anticipated of £1.081m. Council tax increases have been forecast at 0% for 2013/14 and 2.5% per annum thereafter.

- 7.4 The Government has again encouraged council's to freeze the level of council tax for 2013/14 through the offer of a further Council Tax Freeze Grant. However, this would only be payable as a two year grant in 2013/14 and 2014/15. Previous Council Tax Freeze grant that was awarded for four years in 2011/12 has now been rolled in to our Start-Up Funding Assessment (former Formula Grant) by the government.
- 7.5 The New Homes Bonus commenced in April 2011 and is paid to the council by the Government for new homes and empty properties brought back in to use. The amount receivable is equivalent to the national average council tax for each property and is receivable every year for the following six years. The amount is also supplemented with an additional amount for affordable homes. The table below provides a summary of estimated future amounts receivable based on the amount forecast to be received in 2013/14.

Year of Award	Received 2011/12 £	Received 2012/13 £	Forecast 2013/14 £	Potential 2014/15 £	Potential 2015/16 £	Potential 2016/17 £	Potential 2017/18 £
Granted 2011/12	62,046	62,046	62,046	62,046	62,046	62,046	
Granted 2012/13		117,599	117,599	117,599	117,599	117,599	117,599
Granted 2013/14			188,053	188,053	188,053	188,053	188,053
Estimated 2014/15				188,053	188,053	188,053	188,053
Estimated 2015/16					188,053	188,053	188,053
Estimated 2016/17						188,053	188,053
Estimated 2017/18							188,053
Total	62,046	179,645	367,698	555,751	743,804	931,857	1,057,864

The above uses current average council tax levels and assumes the level of growth awarded for in 2013/14

- 7.6 At this time the New Homes Bonus receivable is set aside in an earmarked reserve partly to be used to finance Economic Growth and Prosperity capital schemes. Aside from this, £60,000 is used each year to support the revenue budget.
- 7.7 As can be seen below, the forecast allows for a freeze in the council tax for 2013/14, and a 2.5% increase in each of the following years. Even with this increase in council tax, there would still be a need for future reductions in expenditure to be found in order to bring the budget in line with the financial strategy for that budget year.
- 7.8 The substantial uncertainty that surrounds future Government financial support for local government must be kept to the fore when reviewing the three year forecast shown below. The forecast below has been prepared with the assumption of inflation between 2% and 2.5% and a Government Grant cash freeze in 2015/16.
- 7.9 A number of assumptions have been made in the forecast below:
- A cash freeze on Government grant in 2015/16
 - Inflation has been allowed for between 2% and 2.5%
 - Use of balances will be at approximately £150,000 p.a. from 2014/15 onwards
 - Continued use of the Building Control Reserve.
 - An increase in interest receipts to £50,000 in 2014/15 and £75,000 in 2015/16 based on an assumption that interest rates will see a minimal increase.
 - No new growth items that cannot be funded from efficiency savings or existing earmarked reserves.
 - A council tax deficit has been allowed for, based on current experience.
 - Increase in the council taxbase each of 0.75% based on current indications.

	2013/14 Forecast £'000	2014/15 Forecast £'000	2015/16 Forecast £'000
Net Expenditure	6,269	6,507	6,751
Interest Receipts	-29	-50	-75
Post LSVT Pension Reserve	-36	-36	-36
Council Tax Freeze Concession	-32	-32	0
Use of New Homes Bonus	-60	-60	-60
(Use of)/Contribution to Balances	-166	-150	-150
Savings Required	0	-495	-725
Budget Requirement	5,946	5,684	5,705
Government Funding	-2,962	-2,585	-2,506
Business Rate Growth	-47	-50	-50
Collection Fund Deficit	25	10	10
Precept	2,962	3,059	3,159
Taxbase	21,053	21,211	21,370
Band D Council Tax	£140.69	£144.21	£147.81
Projected Council Tax increase	0%	2.50%	2.50%

7.10 The main reasons for the increase in net expenditure between years are shown below:

	2013/14 to 2014/15 £'000	2014/15 to 2015/16 £'000
Movement in cost of services	238	244
Increased Interest Receipts	-21	-25
Council Tax Freeze Grant	0	32
Use of Balances	16	0
Increased Savings Required	-495	-230
Total Change in Budget Requirement	-262	21

8 General Fund Balance and Earmarked Reserves

- 8.1 The impact of the forecast on the council's general fund balances is summarised in the table below. It is important to note that whilst the government funding has been indicated for the next two years, there remains uncertainty around 2015/16 and around any level of business rates growth that is retained.
- 8.2 The information provided below is based on an assumption of inflation between 2% to 2.5% and a cash freeze on Government financial support in 2015/16.
- 8.3 The impact of the above on council general fund balances is shown below. The minimum recommended level of balances is £700,000.

	2013/14 £'000	2014/15 £'000	2015/16 £'000
Brought Forward	1,546,586	1,380,653	1,230,653
(Use of)/Contribution to Balances	-165,933	-150,000	-150,000
Carried Forward	1,380,653	1,230,653	1,080,653

- 8.4 As with any plan spanning a number of years it is only prudent to consider the associated risks. As previously stated, although the Government has provided details of what the council will receive in 2013/14 and provisional details for 2014/15 it is still unknown what the council will receive in 2015/16 and onward, particularly around the future level of business rates growth retention that the council will see. To protect against the potential volatility around business rates retention, an earmarked reserve has been created.
- 8.5 Whilst the council has put in place a scheme for the Localisation of Council Tax Support, the longer term impact on the council's budget is unknown. This is largely due to unknown future case load in the current downturn, which could conversely improve our position should the economy recover. Any future changes to the governments support for localised council tax support is also unknown, as the funding that was made known to the council for 2013/14 will in future be rolled-in to the main Start-Up Funding Assessment (former Formula Grant).
- 8.6 Other service pressures that are currently impacting on the council's budget focus around the planning service. Earmarked reserves are playing a vital role in this area in allowing the council flexibility in its approach to meeting these demands in a timely manner.
- 8.7 The Council have a number of earmarked reserves that have been set up voluntarily in order to provide for future spending plans. The table below shows the expected movement in these reserves over the life of this medium term financial strategy.

Reserve	Estimate 31 March 2013	Estimate 31 March 2014	Estimate 31 March 2015	Estimate 31 March 2016
<u>Local Recreation Grants Fund</u> <i>Used to fund recreation grants</i>	23,651	23,651	23,651	23,651
<u>Elections Fund</u> <i>Used to fund borough elections held once every four years</i>	40,402	61,282	81,282	26,282
<u>Audit Reserve Fund</u> <i>Used for computer audit</i>	12,335	12,335	12,335	12,335
<u>Building Control Fund</u> <i>Available to equalise net expenditure over a three year period</i>	-109,570	-105,400	0	0
<u>Rural Development Reserve</u> <i>Used to fund consultation work on rural housing</i>	1,631	1,631	1,631	1,631
<u>Capital</u> <i>Used to fund the capital programme</i>	314,186	314,186	314,186	314,186
<u>Insurance</u> <i>Available to meet any costs following demise of Municipal Mutual Insurance Company</i>	20,000	20,000	20,000	20,000
<u>Christmas Lights/RV in Bloom</u> <i>Available to fund contributions towards Christmas Lights and Ribble Valley in Bloom</i>	2,316	2,316	2,316	2,316

Reserve	Estimate 31 March 2013	Estimate 31 March 2014	Estimate 31 March 2015	Estimate 31 March 2016
<u>Community Enhancement</u> <i>Used to fund grants to local organisations</i>	2,881	2,881	2,881	2,881
<u>New Community Enhancement Schemes</u> <i>Additional reserve for funding grants to local organisations</i>	6,809	6,809	6,809	6,809
<u>Rent Deposit Reserve</u> <i>Set aside for homeless rent deposits</i>	7,837	7,837	7,837	7,837
<u>Revenue Contributions (RCCO) Unapplied</u> <i>Used to fund capital expenditure</i>	26,255	33,755	33,755	33,755
<u>Parish Schemes</u> <i>Used to fund Parish improvement schemes</i>	1,729	1,729	1,729	1,729
<u>Local Development Framework</u> <i>To finance Local Development Framework costs</i>	3,829	3,829	3,829	3,829
<u>LALPAC Licensing System</u> <i>To fund costs of LALPAC licensing system</i>	974	514	514	514
<u>IT Equipment</u> <i>To fund future software and hardware upgrades</i>	53,390	53,390	53,390	53,390
<u>Conservation Reserve</u> <i>To fund conservation schemes completed after the financial year end</i>	6,210	6,210	6,210	6,210
<u>Concessionary Travel</u> <i>To fund the transfer of the administration of the scheme to upper tier local authorities</i>	40,026	40,026	40,026	40,026
<u>Fleming VAT Claim</u> <i>VAT recovered from 'Fleming' claim challenge to HMRC</i>	239,926	239,926	239,926	239,926
<u>Repairs and Maintenance</u> <i>To fund emergency repairs and maintenance items, including legionella and asbestos abatement</i>	28,299	28,299	28,299	28,299
<u>Post LSVT</u> <i>To fund any costs post LSVT which may arise, such as pension fund liabilities</i>	438,150	438,150	438,150	438,150
<u>Market Town Enhancement</u> <i>To fund grants under Market Towns Enhancement Scheme</i>	6,643	6,643	6,643	6,643
<u>Performance Reward Grant</u> <i>Performance Reward Grant received and yet to be distributed to successful schemes</i>	366,108	351,108	351,108	351,108
<u>Refuse Collection</u> <i>To fund refuse collection costs of bin replacements</i>	18,000	18,000	18,000	18,000
<u>Restructuring Reserve</u> <i>To fund costs resulting from the restructure review</i>	227,541	227,541	227,541	227,541
<u>VAT Shelter Reserve</u> <i>Funds received from the post LSVT VAT Shelter arrangements, partly used to contribute towards the future financing of the capital programme</i>	1,595,574	1,805,728	2,096,808	2,397,233
<u>Revaluation of Assets Reserve</u> <i>To contribute towards the revaluation of the Council's assets every five years.</i>	6,000	8,000	0	0

Reserve	Estimate 31 March 2013	Estimate 31 March 2014	Estimate 31 March 2015	Estimate 31 March 2016
<u>Clean Air Reserve</u> <i>To fund clean air survey work</i>	3,641	3,161	2,681	2,201
<u>Equipment Reserve</u> <i>To fund essential and urgent equipment requirements</i>	33,000	33,000	33,000	33,000
<u>Invest to Save Fund</u> <i>To fund future invest to save projects</i>	171,918	171,918	171,918	171,918
<u>Land Charges Reserve</u> <i>To fund any potential restitution claims for personal search fees</i>	34,356	34,356	34,356	34,356
<u>Pendle Hill User Reserve</u> <i>To fund improvement schemes on Pendle Hill</i>	13,511	13,511	13,511	13,511
<u>Planning Reserve</u> <i>To fund any future potential planning issues</i>	112,500	112,500	112,500	112,500
<u>Crime Reduction Partnership Reserve</u> <i>To fund cost of crime reduction initiatives</i>	23,999	0	0	0
<u>Housing Benefit Reserve</u> <i>To help meet the challenges facing the service in the coming years</i>	100,000	100,000	100,000	100,000
<u>Clitheroe Cemetery Extension</u> <i>To meet any future liabilities from the cemetery extension</i>	3,640	3,640	3,640	3,640
<u>Exercise Referral</u> <i>To meet future costs of the service</i>	14,670	9,410	9,410	9,410
<u>Wellbeing and Health Equality</u> <i>To meet future costs of the service</i>	47,428	47,428	47,428	47,428
<u>New Homes Bonus Reserve</u> <i>To help finance future economic development capital schemes</i>	17,991	325,689	821,440	1,457,244
<u>Core Strategy Reserve</u> <i>To fund the production of the Core Strategy</i>	9,782	9,782	9,782	9,782
<u>CCTV Reserve</u> <i>To fund the purchase of additional CCTV Equipment</i>	1,000	1,000	1,000	1,000
<u>Community Right to Bid</u> <i>To assist in funding work on any future Community Rights to Bid</i>	4,870	12,730	12,730	12,730
<u>Community Right to Challenge</u> <i>To assist in funding work on any future Community Rights to Challenge</i>	8,550	17,100	17,100	17,100
Totals	3,981,988	4,505,601	5,409,352	6,290,101

9 Capital Programme 2013/14 – 2015/16

- 9.1 The Capital Programme is an important element of the Medium Term Financial Strategy and as such the main elements are shown below.
- 9.2 The Prudential Code plays a key role in capital finance in local authorities. Councils determine their own programmes for capital investment in fixed assets that are central to the delivery of quality public services. The Prudential Code was developed by CIPFA, the Chartered Institute of Public Finance and Accountancy, as a professional code of practice to support councils in making their decisions. Local authorities are required by Regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003.
- 9.3 A sound capital programme must be driven by the desire to provide high quality, value for money public services. The Prudential Code recognises that in making its capital investment decisions the council must have explicit regard to option appraisal, asset management planning, strategic planning for the council and achievability of the capital programme.
- 9.4 The Prudential Code does not specify how the council should have regard to these factors. Instead it concentrates on the means by which the council will demonstrate that its proposals are affordable, prudent and sustainable.
- 9.5 The Council has always sought to maximise funding for capital, including any from revenue sources, within a prudential framework.
- 9.6 The Council's funding policy has been to set programmes which address its key priorities and to fund these by utilising prudential borrowing, capital receipts (both in hand and anticipated in year) and capital reserves in a corporate approach, thus providing the maximum investment position.
- 9.7 The Council's proposed capital programme at the time of producing this medium term financial strategy is reproduced at Annex 2. The table below shows a summary of the proposed capital programme. The council's policy is to maintain a £300,000 balance of resources. The table shows that the balance of available capital resources will remain above this level for the life of the capital programme.

	2013/14	2014/15	2015/16	Total
	£	£	£	£
Total of all Proposed Schemes	1,034,620	461,000	688,000	2,183,620
Resources Available in the year	-540,423	-461,000	-688,000	-1,689,423
Balance of Resources Brought Forward	-812,620	-318,423	-318,423	-812,620
Balance Remaining	-318,423	-318,423	-318,423	-318,423

10 Risk Assessment and Sensitivity

- 10.1 There are a number of risks with the medium term financial strategy as fluctuations in some of the underlying assumptions can produce significant changes to the forecast.
- 10.2 The table below shows some of the areas of sensitivity and the potential impact on the strategy, based on the original estimate for 2013/14.

Area of Sensitivity	Percentage Fluctuation	Annual Impact on Budget
Pay Award	0.50%	£18,450
Energy Costs	5.00%	£6,930
Short Term Investment Interest Rates	0.25%	£14,900
Fees and Charges	1.00%	£20,500
Service Specific Government Grants	1.00%	£76,100
Other Grants and Contributions	1.00%	£9,780
Business Rates Growth <i>impact on retention</i>	1.00%	£27,200
Start-Up Funding Assessment <i>(former Formula Grant)</i>	1.00%	£29,620

- 10.3 In terms of impact on the council tax, each budget adjustment of £100,000 has the effect of changing council tax at Band D equivalent by £4.75 or 3.4%.
- 10.4 On the other hand, for every 1% increase in the level of 2013/14 council tax charge, an additional £29,620 council tax revenue would be raised and therefore, for every 1% decrease in the level of council tax revenue £29,620 savings would need to be identified or alternative funding such as use of balances would need to be found.
- 10.5 In terms of the Start-Up Funding Assessment (former Formula Grant) that is received, for 2013/14 (including anticipated growth) this will support approximately 51% of the Council's budget requirement and so any variation has a major impact. A variation of 1% in this funding (before anticipated growth) would amount to £29,620.

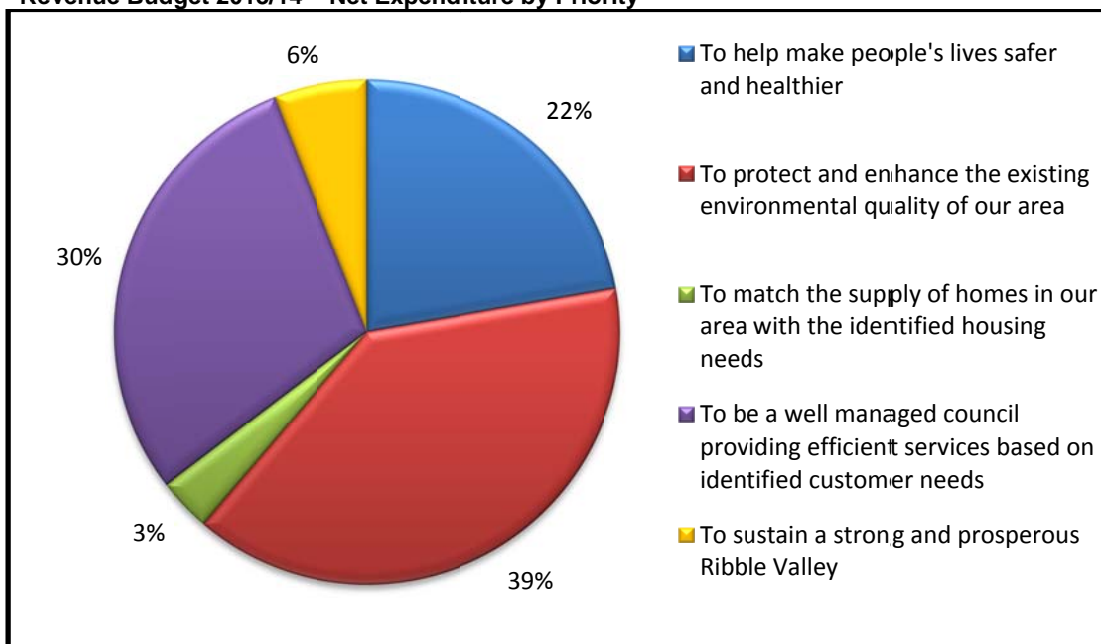
Risk	Level	Mitigation
Savings that have been identified by Heads of Service are not achieved	Medium	Regular monitoring of budgets and meetings with Heads of Service where savings have been identified in order to enable early corrective action if required
Interest rates on investments fluctuate to a greater extent than anticipated	High	This risk is managed through the Treasury Management Strategy. The markets are regularly monitored and discussions held with the Director of Resources, Head of Financial Services and Senior Accountant daily.
A financial institution that has been invested in is unable to repay the principle sum to the Council	Medium	This risk is managed through the Treasury Management Strategy. The markets are regularly monitored and discussions held with the Director of Resources, Head of Financial Services and Senior Accountant daily.
Future Start-Up Funding Assessment (former Formula Grant) settlement for 2015/16 and onwards sees further substantial reduction	High	Further service savings would need to be identified or there would need to be an increased use of balances.

Risk	Level	Mitigation
Business Rates Growth Retention	High	There is a high level of uncertainty around the future level of business rates growth, or downturn. Whilst the council is protected to an extent by the government setting a Safety Net Threshold, it is proposed to set up a Business Rate Volatility earmarked reserve in order to cushion future fluctuations
Expenditure is not contained within the approved budgets	Low	The council has a well developed budget monitoring process which enables early identification of variances and allows corrective action to be taken.

11 Links to Ambitions and Priorities

11.1 All budgets are linked to the Council's priorities and these links were identified throughout the budget setting process. The table below shows our planned net revenue budget for 2013/14 broken down over the Council priorities.

Revenue Budget 2013/14 – Net Expenditure by Priority

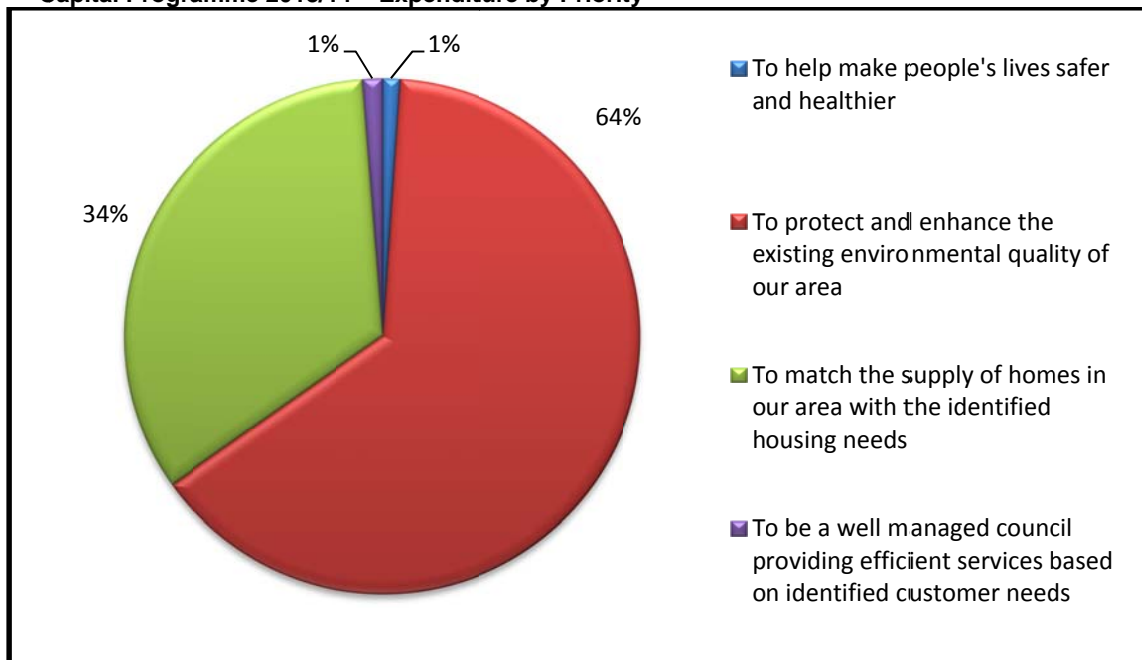


11.2 As with revenue budgets, all proposed capital schemes are linked to the Council's priorities. The evaluation process also required Heads of Service to submit detailed bid forms for new capital schemes. These included such information as:

- Link to priorities
- Statutory or legal obligations
- Performance management
- Efficiency and Value for Money
- Consultation
- Start Date and Milestones
- Useful Economic Life
- Environmental Impact
- Capital and Revenue Implications
- Whole Life Cost
- Risk Assessment
- Consequences of Delay or Deletion

11.3 The table below shows our planned capital programme for 2013/14 broken down over the Council priorities.

Capital Programme 2013/14 – Expenditure by Priority



Forward Capital Programme – 2013/14 to 2015/16

EXPENDITURE	BUDGET WORKING GROUP AND CMT RECOMMENDATIONS				
	2013/14			2014/15	2015/16
	Proposed Budget £	Budget Moved from 2012/13 £	Total Proposed Budget £	Proposed Budget £	Proposed Budget £
<i><u>Community Services Committee</u></i>					
Replacement Vehicle PK06 VWY - Vauxhall Vivaro 2900 DTI LWB Panel Van	13,000		13,000		
Replacement of Geesink 26t RP HGV Refuse Collection Vehicle					200,000
Replacement of 4 x 4 Tractor/Mower (PNO4 NPZ)					17,000
Play Area Improvements	40,000		40,000	40,000	40,000
Replacement of Kubota Mower PN05 PLO					19,000
Replace Scag Mower					9,000
Two Heavy Goods Trailers					6,000
Replacement of 2 Tri Star Mowers					16,000
Retention of Weekly Collection of Residual Waste - Purchase of Vehicles and Bins	540,000		540,000	210,000	
Replacement of Waste Transfer Station Loader Shovel					70,000
Replacement of multi use panel van (currently Vauxhall Vivaro)					12,000
Total Community Services Committee	593,000	0	593,000	250,000	389,000

Forward Capital Programme – 2013/14 to 2015/16

EXPENDITURE	BUDGET WORKING GROUP AND CMT RECOMMENDATIONS				
	2013/14			2014/15	2015/16
	Proposed Budget £	Budget Moved from 2012/13 £	Total Proposed Budget £	Proposed Budget £	Proposed Budget £
<u>Policy and Finance Committee</u>					
Storage Area Network				0	
Clitheroe Townscape Scheme					115,000
Total Policy and Finance Committee	0	0	0	0	115,000
<u>Health and Housing Committee</u>					
Clitheroe Cemetery Installation of Infrastructure		84,000	84,000		
Replacement of Pest Control Vehicle PO07 WPB				11,000	
Replacement of Pest Control Vehicle PE56 EFB	11,000		11,000		
Purchase and Repair Scheme	45,000		45,000		
Disabled Facilities Grants	109,000	84,330	193,330	109,000	109,000
Landlord/Tenant Grants	75,000		75,000	75,000	75,000

Forward Capital Programme – 2013/14 to 2015/16

EXPENDITURE	BUDGET WORKING GROUP AND CMT RECOMMENDATIONS				
	2013/14			2014/15	2015/16
	Proposed Budget £	Budget Moved from 2012/13 £	Total Proposed Budget £	Proposed Budget £	Proposed Budget £
Repossession Prevention Fund		33,290	33,290		
Total Health and Housing Committee	240,000	201,620	441,620	195,000	184,000
TOTAL OF PREVIOUSLY APPROVED AND NEW BIDS	833,000	201,620	1,034,620	445,000	688,000