

1. Treasury Strategy Statement 2007/2008

1.1. Introduction

1.1.1. The 2003 Prudential Code for Capital Finance in local authorities introduced requirements for the manner in which capital spending plans are to be considered and approved, and in conjunction with this, the development of an integrated treasury management strategy.

1.1.2. The Prudential Code requires the Council to set a number of Prudential Indicators covering a period from one to three years. This report incorporates the indicators to which regard should be given when determining the Council's treasury management strategy for the next three financial years.

1.1.3. The strategy for 2007/2008 in respect of the following aspects of the treasury management function is based upon officers' views on interest rates, supplemented with leading market forecasts provided by Sector, the Council's treasury advisor. The strategy covers:

- Treasury limits in force which will limit the treasury risk and activities of the Council;
- The Prudential Indicators;
- The current treasury position;
- The borrowing requirement;
- Prospects for interest rates;
- The borrowing strategy;
- The extent of debt rescheduling opportunities;
- The investment strategy;
- Any extraordinary treasury issues

1.2. Treasury Limits for 2007/2008 to 2009/2010

1.2.1. It is a statutory duty under Section 3(1) of the Local Government Act 2003, and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the 'Affordable Borrowing Limit'.

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

- Capital expenditure plans are affordable
- All external borrowing and other long term liabilities are within prudent and sustainable levels
- Treasury management decisions are taken in accordance with professional good practice

1.2.3. The framework in the Prudential Code includes a set of Prudential Indicators of which one, the Authorised Limit for external debt for the current year, is the Affordable Borrowing Limit for the purposes of Section 3(1) of the Local Government Act 2003. The Authorised Limit, which is total borrowing gross of investments, needs to identify separately borrowing from other long term liabilities (such as finance leases), and should be consistent with the Council's capital expenditure and financing plans, current levels of borrowing, and treasury management strategy.

1.2.4. Based on the recommended Capital Programme, General Fund Estimates 2007/2008, Housing Revenue Account Estimates for 2007/2008 and the Treasury Strategy for 2007/2008, it is recommended that the Council sets the Authorised Limit for external debt as shown in lines 4 to 6 of the table below. Lines 1 to 3 show, for comparative purposes, the equivalent figures, which Council set a year ago at its meeting in February 2006.

Line		2006 /2007 £m	2007 /2008 £m	2008 /2009 £m	2009 /2010 £m
	As agreed by Council Feb '06				
1	Borrowing	22.45	22.45	22.45	n/a
2	Other Long Term Liabilities	0.05	0.05	0.05	n/a
3	Total Authorised Limit	22.50	22.50	22.50	n/a
	To be agreed by Council Feb '07				
4	Borrowing	22.45	22.45	22.45	22.45
5	Other Long Term Liabilities	.05	0.05	0.05	.05
6	Total Authorised Limit	22.50	22.50	22.50	22.50

1.3. Prudential Indicators for 2007/2008 to 2009/2010

1.3.1. Those Prudential Indicators which are relevant for the purposes of setting an integrated treasury management strategy are set out in Appendix 1 to this report, and it is recommended that the Council be requested to adopt them for 2007/2008. These indicators will be monitored throughout the year in accordance with the Prudential Code.

1.4. Current Treasury Management Portfolio

1.4.1. At 20 January 2007, the Council's position in respect of borrowings and investments is shown in the table below.

		Principal £	Rate %
Fixed Rate Debt	PWLB (2007/08)	3,000,000	4.60
	PWLB (2029/30)	3,000,000	4.75
	Market (2012/13) [Note 1]	5,000,000	4.09
Variable Rate Debt	PWLB	-	-
	Market	-	-
TOTAL DEBT		11,000,000	4.41
Investments	Internally Managed	22,900,000	5.02
TOTAL INVESTMENTS		22,900,000	5.02
<p>Note 1 – this is represented by a ‘LOBO’ which has a term of 50 years. The rate is 4.09% for the first 4 years rising to 4.5% (2008/09), for the next 4 years. From April 2012 (year 9) onwards there are reviews every 4 years. If the lender wants a higher rate at the review dates the Council can repay the loan at no extra cost. If no rate change is sought, the Council must renew at 4.5% for the following 4 year period.</p>			

1.5. Borrowing Requirement

1.5.1. The long-term borrowing undertaken in April 2004 anticipated the Council's borrowing needs in respect of its future capital programme through to 2007/2008. It is not expected that there will be a need for any new additional long-term borrowing in 2007/2008. The repayment of a fixed rate loan of £3m, which is due in April 2007, can be funded from cash currently held as temporary investments. Temporary borrowing may be needed on occasion during the year for cash flow reasons.

1.6. Prospects for Interest Rates

1.6.1. The Treasury Management Strategy for 2007/2008 will be determined in the light of forecast movements in both short and long-term interest rates. The Council has appointed Sector Treasury Services (Sector) as treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates. Appendix 2 shows forecasts for variable and longer fixed interest rates along with a short commentary provided by Sector.

1.6.2. Short-term interest rates (i.e. up to 12 months). At the time of writing this report the base rate is 5.25% and is expected to peak at 5.5% by the end of the first quarter of 2007. The rate is then expected to remain steady until a fall is anticipated to 5.25% by the end of the third quarter and to fall again by 0.25% in the fourth quarter. It will remain there until the end of the second quarter of 2008. The rate will drop to 4.75% for the third and fourth quarters before finally ending the long run trend of 4% - 5% in quarter one of 2009.

The risk to this forecast is that the next increase could occur later than our forecast suggests although the current fear of inflation increases the probability of a further rise but makes the bank rate a little more difficult to predict than previously.

- 1.6.3.** Long-term interest rates (i.e. in excess of 12 months). The 50 year PWLB rate is expected to remain flat at 4.25% although there is scope for the rate to move around the central forecast by +/- 25bp without affecting the central forecast.

Similarly the 25-30 year PWLB rate is expected to remain at 4.5% for the foreseeable future.

The 10 year PWLB rate is likely to fall from 5.00% to 4.75% in the third quarter of 2007 and will then fall again to 4.50% in the first quarter of 2008 and remain at that rate for the foreseeable future.

The 5 year PWLB rate is likely to fall steadily by 0.25% quarterly from Quarter 1 in 2007 reaching 4.5% by the end of Quarter 1 in 2008 and then remaining at that rate for the foreseeable future.

- 1.6.4.** The structure of the Council's long-term borrowing is such that its exposure to fluctuations in interest rates is limited in the short term to the investment side of the treasury portfolio. **This exposure is further minimised by using a significant part of the net investments to fund revenue contributions to capital, rather than supporting the base budget.**

1.7. Capital Borrowings and the Borrowing Portfolio Strategy

- 1.7.1.** As noted in paragraph 1.5 above, it is not expected that there will be a need for new additional borrowing in 2007/2008, although if circumstances are favourable, the maturing loan in April 2007 may be covered by a new loan.
- 1.7.2.** Against this background caution will be adopted with the 2007/2008 treasury operations. The Director of Finance and Community Services will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances, reporting any decisions to the Cabinet at the next available opportunity.

1.8. Debt rescheduling

- 1.8.1.** The Council carried out a major debt rescheduling exercise between September 2003 and April 2004. Whilst no new rescheduling exercises are planned, the Council and its treasury advisors will continue to monitor the market for any favourable opportunities that may arise. Any proposed rescheduling will be reported to Cabinet at the meeting following its action.

2. Investment Strategy

- 2.1.** The Government has issued Guidance on Local Government Investments which local authorities have been expected to follow since April 2004. One key element of the guidance is that every local authority should formally approve an Annual Investment Strategy. The suggested Investment Strategy for 2007/2008 is shown at Appendix 3.
- 2.2.** The basic objective of the Investment Strategy is the prudent investment of the Council's cash balances, including any monies borrowed for the purpose of expenditure in the reasonably near future. The Council will invest its cash balances in those 'Specified Investments' and 'Non-Specified Investments' where institutions meet the credit worthiness requirements identified in the

Council's Treasury Policy Statement. The current lending list is shown at Appendix 4.

- 2.3. All investment activity is carried out in-house. There are currently no investments placed through fund managers.

Background Papers

3. Sector – information for Treasury Management Statement 2007/2008
CIPFA – the Prudential Code and guidance notes for practitioners
ODPM – Guidance on Local Government Investments (March 2004)

Appendices

4. Appendix 1 – Prudential Indicators
Appendix 2 – Interest Rate forecasts and Sector commentary
Appendix 3 – Investment Strategy 2007/2008
Appendix 4 – Current Lending List

Prudential Indicators relevant for the purposes of an integrated Treasury Management Strategy

Reference	Indicator	2006/07	2007/08	2008/09	2009/10
	<u>AFFORDABILITY</u>				
PR 3	Estimates of the impact of capital investment decisions on the Council Tax (Band D per annum)	£41.54	£23.92	£20.69	£17.15
PR 4	Estimates of the impact of capital investment decisions on Housing Rents (per week)	£3.20	£2.90	£3.56	£4.22
PR 7	Estimate of non-HRA capital financing requirement as at the end of each financial year	£2.623m	£2.480m	£2.343m	£2.219m
PR 8	Estimate of HRA capital financing requirement as at the end of each financial year	£10.138m	£10.397m	£10.656m	£10.912m
	<i>(note – the above indicators are shown within the Capital Programme report to Cabinet along with PR 1, PR2 , PR 5 and PR 6 which are not directly relevant to this Treasury Management Strategy)</i>				
	Authorised limit for external debt				
PR 9	- Borrowing	£22.45m	£22.45m	£22.45m	£22.45m
PR 10	- Other Long Term Liabilities	£0.05m	£0.05m	£0.05m	£0.05m
PR 11	- Total	£22.50m	£22.50m	£22.50m	£22.50m
	Operational boundary for external debt				
PR 12	- Borrowing	£17.00m	£17.00m	£17.00m	£17.00m
PR 13	- Other Long Term Liabilities	£0.05m	£0.05m	£0.05m	£0.05m
PR 14	- Total	£17.05m	£17.05m	£17.05m	£17.05m
	<u>PRUDENCE</u>				
PR 15	Net external borrowing below capital financing requirement	met	met	met	met
PR 16	Adoption of CIPFA Code of Practice for Treasury Management	met	met	met	met
PR 17	The upper limit on fixed interest rate exposures	-458%	-333%	-333%	-333%
PR 18	The upper limit on variable interest rate exposures	558%	433%	433%	433%
			Upper limit	Lower limit	
	Maturity structure of fixed rate borrowing				
PR 19/20	- under 12 months		70%	0%	
PR 21/22	- 12 months and within 24 months		70%	0%	
PR 23/24	- 24 months and within 5 years		75%	0%	
PR 25/26	- 5 years and within 10 years		75%	0%	
PR 27/28	- 10 years and above		75%	0%	
	<i>(note – PR19 to 28 calculated as amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate)</i>				
PR 29	Upper limit for principal sums invested for more than 364 days	50%	50%	50%	50%

Explanation of Prudential Indicators

1 In the Code the Indicators are set out according to whether they are indicators of Affordability or Prudence. There are three types:

- Estimate – calculated for future years as part of the budget setting process. Updated estimates of the likely outturn will take place during the year and will feed into the budget process.
- Actual – the source of these will be the latest audited financial statements together with any audit qualification.
- Limits – unlike estimates these are not statements of expected outcomes but are parameters beyond which the associated indicators should not pass without management action.

2 The estimates and limits specified in the Code are rolling rather than fixed. Those for the forthcoming and following years must be set before the beginning of the forthcoming year. They may be revised at any time during the year after following due process. The setting and revising of Prudential Indicators should follow the same route as the setting and revising of the budget of the local authority.

Affordability

3 The fundamental objective when considering the affordability of the Council's capital plans is to ensure that the total capital investment of the authority remains within sustainable limits. In particular to consider its impact on the Council Tax and HRA Rent levels (although rents themselves are calculated with reference to a 'rent restructuring' formula). The Prudential Code makes it clear that affordability will therefore be determined by a judgement about acceptable Council Tax and Rent levels.

4 In order to determine the affordability of the capital programme it will be necessary to consider all the resources available for capital financing in conjunction with the capital programme itself. It will also be necessary to consider revenue income and expenditure forecasts for the forthcoming year and the following two years. The Council will be required to consider known significant variations beyond these three years.

5 Whilst considering affordability it is necessary to take into account risk analysis and risk management strategies.

6 The indicators of 'affordability' are as follows:

- Estimates of Ratio of Financing Costs to Net Revenue Stream (not relevant to Treasury Management Strategy).
 - **PR 1** – Estimates of the ratio of non-HRA financing costs to non-HRA net revenue stream, for years 1, 2 and 3.
 - **PR 2** – Estimates of the ratio of HRA financing costs to HRA net revenue stream, for years 1, 2 and 3.
- Estimates of the Incremental Impact of Capital Investment Decisions on the Council Tax and Housing Rents.
 - **PR 3** – This will calculate the addition or reduction to the Council Tax that would result from changes proposed to the capital programme

- **PR 4** – This will calculate the notional addition or reduction to Housing Rents that would result from changes proposed to the capital programme if rents were not controlled by rent restructuring.

These calculations shall be undertaken for the forthcoming year and the following two financial years or longer timeframe if required to capture the full year effect of capital investment decisions on the Council Tax/ Housing Rents.

- Estimates of Capital Expenditure – The Local Authority will make reasonable estimates of the total of capital expenditure that it plans to incur (not relevant to Treasury Management Strategy).
 - **PR 5** – Estimate of non-HRA capital expenditure to be incurred in years 1, 2 and 3 (and 4 etc if applicable).
 - **PR 6** – Estimate of HRA capital expenditure to be incurred in years 1, 2 and 3.
- Estimates of Capital Financing Requirement – the estimate of Capital Financing Requirement at the end of each year will relate to all capital expenditure – i.e. it includes relevant capital expenditure incurred in previous years. The capital financing requirement will reflect the authority’s underlying need to borrow and is calculated in a prescribed manner set out in the Prudential Code. The estimates will not commit the local authority to particular methods of financing.
 - **PR 7** – Estimate of non-HRA capital financing requirement as at the end of years 1, 2 and 3.
 - **PR 8** – Estimate of HRA capital financing requirement as at the end of years 1, 2 and 3.
- The Authorised Limit for External Debt – the Prudential Indicator for the authorised limit for external debt is the statutory limit determined under section 3(1) of the Local Government Act 2003; “A local authority shall determine and keep under review how much money it can afford to borrow”. Where the Chief Finance Officer forms the view that a limit is likely to be breached (other than where s5 of the LG Act 2003 applies) a report to the decision making body is required. It is then for the decision making body to determine if it would be prudent to raise the current limit or, alternatively, to instigate procedures to ensure the current limit is not breached. Limits to be set in respect of external debt are:
 - **PR 9** – authorised limit for borrowing +
 - **PR 10** – authorised limit for other long-term liabilities =
 - **PR 11** – total authorised limit

The authorised limit should not be set so high that it would never in any possible circumstances be breached. It should reflect a level of borrowing which, while not desired, could be afforded but may not be sustainable. It should be set to establish the outer boundary of the local authority’s borrowing based on a realistic assessment of the risks. This limit is not brought into consideration during the financial management of the authority – this is the purpose of the Operational Boundary.

- Operational Boundary – This indicator is the focus of day to day treasury management activity within the authority. It is a means by which the authority manages its external debt to ensure that it remains within the self imposed Authorised Limit. It differs from the Authorised Limit in being based on expectations of the maximum external debt of the authority according to probable – not simply

possible – events and being consistent with the maximum level of external debt being projected by the estimates. Limits to be set in respect of external debt are:

- **PR 12** – operational boundary for borrowing +
- **PR 13** – operational boundary for other long term liabilities =
- **PR 14** – total operational boundary

Prudence

7 By virtue of the requirements listed above, the prudential indicators in respect of external debt must be set and revised taking into account their affordability. It is through this means that the objectives of sustainability and prudence are addressed year on year.

- Net Borrowing and the Capital Financing Requirement – In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.
 - **PR 15** – net external borrowing is below capital financing requirement.
- Compliance with good professional practice.
 - **PR 16** – the authority complies with the CIPFA Code of Practice for Treasury Management in the Public Services.

8 Treasury Management limits – the setting of Prudential Indicators for Treasury Management will require authorities to recognise key implications of their borrowing and investment strategies. This broadly has three aspects: the exposure to the risk of interest rate changes; the exposure inherent in the maturity structure of borrowings; and the risk associated with longer-term investment. The Treasury Management Indicators are not targets to be aimed for but are limits within which the Treasury Management policies of the authority are deemed to be prudent.

- Interest Rate Exposure – the Prudential Code identifies two indicators that will provide the Operational Boundaries to the exposure to interest rate risk.
 - **PR 17** – Upper limits to fixed interest rate exposure.
 - **PR 18** – Upper limits for variable rate exposure.

The setting of upper limits has the effect of setting ranges within which an authority would limit its exposure to both fixed and variable interest rate movements. These limits can be set by reference to their net interest payments/receipts or to their outstanding net principal sums.

- Maturity Structure of Borrowing – these indicators are designed to be a control over an authority having large concentrations of fixed rate debt needing to be replaced at times of uncertainty. The indicator is, in effect, a limit on longer-term interest rate exposure.
 - **PR 19 to 28** – Upper limits for fixed rate borrowing maturing in certain timescales
- Principal Sums Invested for periods longer than 364 days – the purpose of the Prudential Limits for principal sums invested for periods longer than 364 days is for

the Local Authority to contain its exposure to the possibility of its having to seek early repayment or redemption of principal sums invested.

- **PR 29** – Upper limit for principal sums invested for periods longer than 364 days.

INTEREST RATE FORECASTS

The data below shows a variety of forecasts published by a number of institutions. The first three are individual forecasts including those of UBS and Capital Economics (an independent forecasting consultancy). The final one represents summarised figures drawn from the population of all major City banks and academic institutions.

The forecast within this strategy statement has been drawn from these diverse sources and officers' own views.

INDIVIDUAL FORECASTS**Sector Treasury View - Interest Rate Forecast at 29 January 2007**

	Q/E1 2007	Q/E2 2007	Q/E3 2007	Q/E4 2007	Q/E1 2008	Q/E2 2008	Q/E3 2008	Q/E4 2008	Q/E1 2009	Q/E2 2009	Q/E3 2009	Q/E4 2009	Q/E1 2010	Q/E2 2010	Q/E3 2010
Bank rate	5.50%	5.50%	5.25%	5.00%	5.00%	5.00%	4.75%	4.75%	4.50%	4.50%	4.50%	4.50%	4.75%	4.75%	4.75%
5yr PWLB rate	5.50%	5.25%	5.00%	4.75%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
10yr PWLB rate	5.00%	5.00%	4.75%	4.75%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
25yr PWLB rate	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
50yr PWLB rate	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%

Capital Economics View - Interest Rate Forecast at 15 January 2007

	Q/E1 2007	Q/E2 2007	Q/E3 2007	Q/E4 2007	Q/E1 2008	Q/E2 2008	Q/E3 2008	Q/E4 2008
Bank rate	5.25%	5.50%	5.50%	5.25%	4.75%	4.50%	4.50%	4.50%
5yr PWLB rate	5.35%	5.05%	4.85%	4.65%	4.45%	4.55%	4.65%	4.75%
10yr PWLB rate	4.95%	4.75%	4.45%	4.45%	4.55%	4.65%	4.75%	4.85%
25yr PWLB rate	4.45%	4.35%	4.25%	4.25%	4.25%	4.35%	4.45%	4.55%
30yr PWLB rate	4.25%	4.15%	3.95%	4.05%	4.05%	4.15%	4.25%	4.35%
50yr PWLB rate	4.05%	3.95%	3.95%	4.05%	4.05%	4.15%	4.15%	4.25%

UBS Economic Interest Rate Forecast (Quarter Ends) at 15 January 2007

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

SURVEY OF ECONOMIC FORECASTS

HM Treasury – January 2007 (pre Bank Rate increase 15.1.07) summary of forecasts of 26 City and 14 academic analysts for Q4 2006 and 2007. (2008 – 2010 are as at November 2006 but are based on 18 forecasts)

	bank rate actual	Quarter ended		annual average bank rate		
		Q4 2006	Q4 2007	ave. 2008	ave. 2009	ave. 2010
Indep. forecasters BoE Bank Rate	5.00%	4.96%	4.89%	4.86%	4.88%	4.85%
Highest bank rate	5.00%	5.00%	6.00%	5.90%	5.60%	6.10%
Lowest bank rate	5.00%	4.50%	4.00%	3.75%	4.00%	4.00%

Lewes District Council – Investment Strategy 2007/2008

1. This Council has regard to the former Office of the Deputy Prime Minister (ODPM) Guidance on Local Government Investments (March 2004) and the CIPFA Treasury Management in Public Services: Code of Practice and Cross Sectoral Guidance Notes.
2. This Annual Investment Strategy states which investments the Council may use for the prudent management of its treasury balances during the financial year under the heads of Specified Investments and Non-Specified Investments.
3. This Strategy also sets out :
 - The procedures for determining the use of each asset class (advantages and associated risk), particularly if the investment falls under the category of “non-specified investments”;
 - The maximum periods for which funds may be prudently committed in each asset class;
 - The £ or % limit to be invested in each asset class;
 - Whether the investment instrument is to be used by the Council’s in-house officers; and, if non-specified investments are to be used, whether prior professional advice is to be sought from the Council’s treasury advisors;
 - The minimum amount to be held in short-term investments (i.e. one which the Council may require to be repaid or redeemed within 12 months of making the investment).
4. **Investment Objectives**
 - 4.1. All investments will be in sterling. The general policy objective for this Council is the prudent investment of its treasury balances (including monies borrowed for the purpose of expenditure in the reasonably near future i.e. borrowed 12-18 months in advance of need). The Council’s investment priorities are
 - The security of capital and;
 - The liquidity of its investments.
 - 4.2. The Council will also aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity.
 - 4.3. The ODPM maintains that the borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council holds the same view and will not engage in such activity.
5. **Security of Capital : The use of Credit Ratings**
 - 5.1. This Council principally relies on credit ratings published by Fitch Ratings, to establish the credit quality of counterparties (issuers and issues) and investment schemes. Where a counterparty does not have a Fitch rating, the equivalent Moody’s rating will be used. The Council has also determined the minimum long-term, short-term and other credit ratings it deems to be “high” for each category of investment. Fitch and Moody are separate companies who provide credit rating services.
 - 5.2. Monitoring of credit ratings
 - 5.2.1. All credit ratings will be monitored at least monthly. The Council has access to Fitch credit ratings and is alerted to changes through its use of the Sector website and the Sector email alert service.

5.2.2. If a counterparty's or investment scheme's rating is downgraded with the result that it no longer meets the Council's minimum criteria, the further use of that counterparty/investment scheme as a new investment will be withdrawn immediately. The Council will also immediately inform its external fund manager of the withdrawal of the same.

5.2.3. If a counterparty is upgraded so that it fulfils the Council's criteria, its inclusion will be considered by officers. Any changes to the approved lending list will be reported to Cabinet for approval.

6. Investment balances / Liquidity of Investments

6.1. Based on its cash flow forecasts, the Council anticipates that it will be holding £13.375m as temporary investments at 1 April 2007 excluding any cash balances. The actual amount available for investment through 2007/2008 will fluctuate primarily as a result of the timing of the following potentially significant items of expenditure and income

- Precept payments
- Expenditure on capital projects
- Business rate refunds
- Receipt of government grants
- Receipt of contributions in respect of capital projects
- Capital receipts in respect of major asset sales
- Payments received in respect of council tax, business rates, council house rents

6.2. The minimum percentage of its overall investments that the Council will hold in short-term investments is 50%.

6.3. Giving due consideration to the Council's level of balances over the next 3 years, the need for liquidity, its spending commitments and provision for contingencies, the Council has determined that up to 50% of its overall fund balances could prudently be committed to longer term investments (i.e. those with a maturity exceeding a year).

6.4. As the Council has decided to restrict most of its investments to term deposits, it will maintain liquidity by timing its term deposits to coincide with the cash flow requirement.

7. Investments Defined as Capital Expenditure

7.1. The acquisition of share capital or loan capital in any body corporate is defined as capital expenditure under Section 16(2) of the Local Government Act 2003. Such investments will have to be funded out of capital or revenue resources and will be classified as 'non-specified investments'.

A loan or grant by this Council to another body for capital expenditure by that body is also deemed by regulation to be capital expenditure by this Council. It is therefore important for this Council to clearly identify if the loan has been made for policy reasons (e.g. to the registered social landlord for the construction/improvement of dwellings) or if it is an investment for treasury management purposes. The latter will be governed by the framework set by the Council for 'specified' and 'non-specified' investments.

8. Provisions for Credit-Related Losses

8.1. If any of the Council's investments appeared at risk of loss due to default (i.e. this a credit-related loss, and not one resulting from a fall in price due to movements in interest rates) the Council will make revenue provision of an appropriate amount.

9. Investment Strategy to be followed In-House

- 9.1.** Over 2007/2008 we will continue our strategy that internally managed temporary investments are made primarily with reference to cash flow requirements.
- 9.2.** Sector is forecasting base rates to rise to 5.50% by the end of Quarter 1 and then gently fall to and plateau of 5.00% for the first two quarters of 2008, falling to 4.75% for the last two quarters.

The Council will therefore seek to lock in longer period investments at higher rates before the fall starts for an element of the investment portfolio which represents the core balance. This will enable the Council to lock into higher yielding investments with the maturing deposits. For 2007/2008 the Council has budgeted for an average investment return of 5.00%.

10. External Cash Fund Management

- 10.1.** The Council has withdrawn from the use of external fund managers. Investments made or committed by the Council's fund managers at 1 April 2005 have been returned to the Council on maturity and invested in-house. No new investments will be placed by external fund managers.

11. End of year Investment Report

- 11.1.** At the end of the financial year, the Council will prepare a report on its investment activity as part of its Annual Treasury Report.

12. Definition of Investment Categories

- 12.1.** The general policy objective of the former ODPM guidance is that local authorities should invest prudently the temporarily surplus funds held on behalf of their communities. The guidance emphasises that priority is to be given to security and liquidity, rather than yield. However, that does not mean that authorities should ignore yield. It will be reasonable to seek the highest rate of interest consistent with the proper levels of security and liquidity. The guidance refers to two categories of investments which an authority may choose to make, subject to its Annual Investment Strategy: Specified Investments and Non-specified Investments.

- 12.2.** Specified Investments. The idea of specified investments is to identify investments offering high security and high liquidity. Authorities will be free to rely on these with minimal procedural formalities. An investment is a specified investment if it satisfies the conditions set out below.

- The investment is in sterling
- The investment has a maturity of no more than one year
- The investment does not involve the acquisition of share or loan capital
- Either of the following conditions is met:
 - The investment is made with the UK Government or a local authority, parish council or community council.
 - The investment is made with a body or in an investment scheme which has been awarded a high credit rating by a credit rating agency

Each local authority is required to define what is meant by a 'high credit rating'. This Council will continue with its existing policy in respect of credit ratings, defining a 'high credit rating' as being F1 Fitch IBCA short term credit rating or equivalent. A large number of banks meet this

credit rating criterion. For this reason the Council excludes from its approved lending list those banks which do not originate from Europe, North America, Australia or New Zealand.

12.3. Non-specified Investments. These are investments which do not meet the definition of specified investments given in paragraph 12.2 and can be considered to carry a greater risk. A local authority is able to make such investments provided that its Annual Investment Strategy

- Sets out procedures for determining which categories of such investments may prudently be used
- Identifies which categories of such investments have so far been identified as prudent for use during the financial year
- States the maximum amounts which may be held in each identified category at any time during the financial year

This Council has historically found that there is a limited number of F1 rated financial institutions which are willing to take investments of up to £1million which are the amounts that the Council typically has available as surplus funds. As a result, it has extended its counterparty list to building societies with assets of over £1 billion. These are covered as non-specified investments.

Local authorities are able to make investments for a period of more than one year. The Council's use of such investments (if any) will be restricted to institutions with a long term Fitch credit rating of AA- or equivalent.

13. Schedule of Specified and Non-specified Investments

For 2007/2008, these will be as follows

	Investment	Minimum credit rating	Circumstances of use	Maximum period
Specified Investments				
1	Term deposits with UK Government or UK local authorities	N/A	No restrictions	1 year
2	Term deposits with credit-rated deposit takers (banks and building societies), including callable deposits, with maturities up to 1 year	F1 Fitch short term rating	Maximum of £3m per institution at any one time. Bank must originate from Europe, North America, Australia or New Zealand.	1 year
3	Forward deposits with credit rated banks and building societies < 1 year (i.e. negotiated deal period plus period of deposit)	F1 Fitch short term rating	Maximum of £3m per institution at any one time	1 year in aggregate
Non-specified Investments				
4	Term deposits with unrated building societies	Building society assets exceed £1billion.	Maximum of £3m per institution at any one time. Maximum of 60% of investment portfolio at any one time.	1 year
5	Term deposits with unrated banks with unconditional financial guarantee from credit rated parent organisation	Parent bank has F1 Fitch short term rating	Maximum of £3m per institution at any one time. Maximum of 60% of investment portfolio at any one time.	1 year
6	Forward deposits with credit rated banks and building societies > 1 year (i.e. negotiated deal period plus period of deposit)	AA- Fitch long term rating	Maximum of £2m per institution at any one time	2 years in aggregate
7	Term deposits with credit-rated deposit takers (banks and building societies), including callable deposits, with maturities more than 1 year	AA- Fitch long term rating	Maximum of £2m per institution at any one time Maximum of 20% of investment portfolio at any one time.	3 years

Lewes District Council
Medium Term Financial Strategy
(updated for period 2007/08 to 2009/10)

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1 Financial Management at Lewes District Council

- 1.1 The Audit Commission has assessed and publicly acknowledged that Lewes District Council is a 'good' council. The Council's sound financial management has been consistently referred to in the Audit Commission's Annual Management Letters to the Council which are published on the Audit Commission website. In its most recent¹ 'Use of Resources' assessment of the Council (carried out in 2005), the Audit Commission scored the Council's performance as follows:

Activity	LDC Score (out of 4)	% of Districts with lower score	Number of Districts with higher score
Financial reporting	3	50	2
Financial management	3	58	1
Financial standing	3	63	8
Internal control	4	99	0
Value for money	3	64	2
Overall	3	63	5

This is not a reason to be complacent, however. Where it is cost-effective to do so, we look to improve our financial management performance, and we need to ensure that, when expectations increase, we can rise to the challenge.

- 1.2 Managing finance is integral to the work of councillors and senior managers, who continuously search for efficiencies in order to provide value for money services and to achieve high levels of performance and public satisfaction. We have a target to deliver £50,000 of cash efficiency savings in each year from 2007/08 through to 2009/10. We will revise this target when the Government releases details of the three year funding settlement for local authorities later in 2007.
- 1.3 Medium term planning is essential to deliver high quality services. Balancing priorities and resources requires us to take account of tensions between national and local priorities, the impact of demographic changes and changes in national funding regimes. Our approach is to anticipate and plan for change, rather than being reactive when it arrives. The Medium Term Financial Strategy enables Councillors and officers to be confident that financial resources will be available to help them meet their agreed objectives not just now but moving into the future.

2 Context for the Strategy.

- 2.1 The main concepts of this Strategy apply across the whole range of the Council's financial activity: capital or revenue, General Fund or Housing Revenue Account. However, it is important to note that there are also separate Capital Strategy, Housing Business Plan, Treasury Management and Investment Strategy documents. These are reviewed annually and explain the Council's approach in these specific areas. As a result, the detail of this strategy primarily relates to services paid for by Council Taxpayers and which are accounted for in the Council's General Fund Account.
- 2.2 The General Fund Account covers a whole range of statutory and discretionary services. Fees and charges offset the cost of some services, as do service specific grants and contributions from the Government and other organisations. The Government makes a significant contribution towards the net cost and local taxpayers fund the remainder.

¹ at the time of writing, the Audit Commission had indicated that the same scores would apply in 2006

- 2.3 This document explains the Council's approach to strategic financial management. The last page shows our financial projection for the next three years together with likely levels of council tax rates over that period. Updates of this projection are provided to Cabinet regularly throughout the year as items which may have a significant financial impact are identified by budget managers or finance staff. A comprehensive update is made at the annual budget meeting each February.

3 Objectives of the Strategy

- 3.1 The objectives of the Council's financial Strategy are as follows:

	Objective
1	To provide a robust framework to assist the decision making process
2	To enable the Council to be proactive rather than reactive
3	To act as a barometer and give early indication of need to review priorities
4	To show how resources support the Council Plan over a four year period
5	To support sustainable services through reserves, equalisation and renewal funds
6	To hold a working balance at an adequate level to respond to unexpected events and opportunities
7	To be flexible and responsive to changing needs and legislation
8	To support the Council's service and core strategies
9	To provide forward indications of Council Tax levels

- 3.2 A number of principles have been established to underpin the financial objectives:

	Key Principles
1	Resources will be prioritised to meet statutory (core service) obligations
2	We will work with partners and the local community to determine priorities
3	We will constantly review and reconcile priorities in line with the available resources
4	Capital receipts will only be used to fund capital programmes, when banked
5	General Fund capital receipts will be used to improve and replace existing assets
6	Capital receipts from council house sales will be reinvested in a housing capital programme or to improve and replace existing assets
7	The budget for investment income will take account of advice from our appointed Treasury Consultant. If interest rates rise are expected to rise, we will not use the additional income to fund items within the recurring base budget.
8	We will aim to achieve a zero balance on the Collection Fund when estimating the Council tax collection rate each year.
9	Council tax amounts will be transparent and sustainable. This means that the budget requirement will not be lowered through the use of one-off balances or reserves without a published intention to realign priorities with the Medium Term Financial Strategy
10	Changes to the Council's priority programme must be reported to Cabinet and supported by a risk assessment and financial appraisal showing part year and full year costs, including the revenue consequences of any capital investment and lifetime costs.
11	Every request for capital investment must be supported by a Business Case which shows how the cost of that investment will be repaid over time.

3.3 Key mechanisms to help monitor the effectiveness of this Strategy and the underlying principles are:

	Control Mechanism	Timing
1	Scrutiny Committee review of revised service estimates for the current year and draft service budgets for following year	January
2	Supporting information sent with Council Tax bills	March
3	Financial input to the Council Plan	April
4	Audit Committee review of draft annual accounts	June
5	Cabinet approval of Budget Framework for year ahead	July
6	External Auditor's audit of annual accounts	September
7	Audit Committee review of External Auditor's Annual Audit and Inspection Letter	December
8	External Auditor reports 'Use of Resources' score to officers, followed by formal publication	December/March
9	Finance Updates to each meeting of Cabinet	Throughout year
10	Benchmarking exercises to compare balances and reserves with similar sized councils	Annual review
11	Grant and subsidy returns submitted on time	Return specific

4 Funding Priorities and Service Improvements

- 4.1 We ensure that our priorities for the year ahead are funded and Appendix A sets out the detailed programme which we will be working to in 2007/08. Future plans are supported by a range of earmarked reserves and balances which are shown in Appendix B. Our work on generating efficiency gains also provides resources for reinvestment either directly into front line services or to keep future tax levels within reasonable limits. The following paragraphs outline the processes we have in place to ensure that priorities are properly resourced in the current year and the medium term.
- 4.2 Minor service improvements that can be made without additional resources will be implemented as a matter of course.
- 4.3 Cabinet will provide the resources needed to implement Council priorities and service improvements.
- 4.4 Managers will be encouraged to improve services in line with Council priorities through invest to save initiatives, efficiency gains, cost reductions or income generation.
- 4.5 Specific reserves will be established to support Council priorities and areas identified for service improvement. The level of, and continuing need for, each reserve will be reviewed when setting the annual budget and closing the accounts at the end of the financial year.
- 4.6 The Council will continue to identify external funders and business partners who are willing to contribute towards specific projects or services. This has proved to be a successful approach that has generated capital and revenue investment within the district that would not otherwise have proceeded.

- 4.7 Time limited and targeted Government funds will be used to fund non-recurring cost items and to support non recurring service improvements.
- 4.8 We are working with East Sussex County Council and district and borough councils in East Sussex to deliver better services to our communities through joint working. We are a partner in the East Sussex Joint Improvement Programme that commenced during 2005/06 and has attracted Government funding. We are also a key player in the County Wide Local Area Agreement that came into effect from April 2006 and will generate grant rewards if performance targets are met. We will participate in any forum where the objective is complementary to the Council's functions and the aim is to provide better services to local communities.
- 4.9 The Prudential Code for Capital Finance in local authorities provides opportunities for councils to fund capital needs and new projects where the impact can be afforded in terms of the impact on Council tax levels. This opens up the avenue of 'locally supported borrowing' to finance the replacement of capital assets in addition to, or in place of, the operating leases that can be used for vehicle acquisition. The Prudential Code can help address priorities that generate a net income stream. This could include services such as off-street car parking or income generating leisure facilities. An options appraisal examining the advantages and disadvantages of funding methods will be undertaken when capital schemes are proposed to Cabinet.
- 4.10 Powers to charge for discretionary services where no other legislation exists enable councils to recover their actual costs of relevant activities. Raising income in this way can help to reconcile priorities and the Medium Term Financial Strategy. Opportunities to use these powers will be kept under review.
- 4.11 Councils such as Lewes that have been assessed by their External Auditors as 'Good' have been given powers to trade. Trading can be with business partners, other local authorities or via special purpose companies. Joint provision of a major council service might be an area where such powers could prove useful. The Council has no plans to use these powers at present.
- 4.12 On 1 April 2006, the Council transferred the operation of its leisure centres and swimming pool to Wave Leisure, an independent charitable Trust. A 10-year agreement is in place setting out the terms under which this major service will be delivered to the Council. The new arrangements will enable the Council to reinvest £1 million in the facilities which will help to increase current income levels and also ensure that the buildings are kept in a good state of repair. Without the transfer to the Trust, this could not have been achieved.

5 Medium Term Influences

Key risk areas within the financial strategy are considered below. A significant change in any one of these areas could affect the resourcing of services and priorities over the next four years.

- 5.1 **Investment Interest Rates.** In recent years, the Council has completed the realignment of its investment and loans portfolios. This has significantly reduced the risk to interest rate exposure. An interest rate of no more than 4.5% on investments is used to support the recurring base budget. Returns above this threshold are used to fund non-recurring expenditure via earmarked reserves and balances.

- 5.2 **Loan Interest Rates.** The reduction and restructuring of the Council's loan portfolio has also significantly reduced the risk to interest rate exposure. The portfolio comprises a spread of fixed rate maturities from one year through to 30 years. The average cost of borrowing is now fixed at less than 4.5%.
- 5.3 **Pension Fund Contributions.** Legislation requires councils to make good any deficit to their employees' pension fund. East Sussex County Council manages the pension fund and it is one of the best performing funds in the country. An independent actuary reviews the fund every three years with the next revaluation in 2008. Pension fund management is a long-term activity that can be affected by relatively short-term market movements that coincide with an actuarial valuation. We have built pension contribution increases of 1% into our projections for 2007/08 and 2008/09.

6 **Components of the medium term strategy**

This section briefly explains some of the processes and key components that underpin the medium term financial plan.

6.1 **Revenue and Capital Budgets**

The Council's Constitution sets out how the annual budget and policy framework operates. Cabinet proposes a draft revenue budget and a period of consultation follows. The outcome is considered and a budget requirement recommended to Council for approval. The budget and projections are monitored at Cabinet meetings. A similar process applies to capital budgets.

6.2 **Fees & charges**

Fees and charges are set to take account of demand, trends, future expectations, market comparisons, policy objectives, cost of providing the service, legislative guidance and the rate of inflation. Fees and charges help keep down the net cost of services to be funded by Government grant and taxpayers. The general objective is to maximise income from fees and charges.

6.3 **Treasury Strategy**

The Chartered Institute of Public Finance and Accountancy has published a Code of Practice on Treasury Management in the Public Services, which the Council has adopted. The Treasury Strategy sets out the parameters for borrowing, investment and management of the Council's cash flows commensurate with risk and return. It sets out the key reports that will be made to Cabinet each year. The Treasury Strategy for the year ahead is set in tandem with the annual budget process. Cabinet receives a report on the previous year's performance each spring.

6.4 **Asset Management**

Many of the Council's services are capital intensive, particularly in relation to public infrastructure (sea defences, historic flint walls, open spaces, playing fields, leisure centres) and vehicle needs (waste collection, street cleaning and recycling). Future needs are set out in asset maintenance and renewal plans. These plans drive the need for earmarked reserves.

6.5 External Funding

Our Capital Strategy, which is updated annually, explains how important external funding is to the Council and local communities. Where external funding opportunities arise that complement our priorities we will use best endeavours to put in successful applications. We also see external funding as a way of supporting our approach to asset management. Likewise the Capital Strategy stresses the value of external funding in helping to deliver local priorities. We have a dedicated funding officer based in our Community Development team who works to secure external revenue and capital funds.

Accepting time limited revenue grants without proper consideration for the future can build in medium term budgetary problems for the unwary. The Council's Cabinet avoids this trap by saying at the time the decision is made to accept any offer, what it will do when the funding stream expires in the future. It may say that the project or service will cease. It may agree to fund future costs from the base budget. It may agree to continue the project or service with a written guarantee of funding from other partners.

6.6 Reserves and provisions

The Local Government Act 2003 requires all Councils to maintain adequate reserves and provisions to help ensure that the medium term policy programme is sustainable and that it can be delivered. The Council's Chief Finance Officer is required to state whether the reserves are adequate to fund the medium term programme as part of the annual budget setting process. The General Fund has 23 earmarked reserves with a total projected value of £3.8 million at 31 March 2007. These are shown at Appendix B. In addition, there is the Major Repairs Allowance reserve (£0.7 million) which can only be used for investment in Council Houses. The level of reserves and provisions are reviewed twice a year. Once during the budget setting cycle and again when the year end accounts are produced.

Within the earmarked reserves is the Revenue Equalisation and Asset Maintenance Reserve which is maintained to help even out the peaks and troughs that occur in budgets that we know will happen, but on a frequency greater than one year eg district council election costs. At 31 March 2007 this reserve is projected to stand at £1.177 million.

6.7 The Working Balance

In addition to having specific reserves, we also maintain a general working balance, which enables the Council to respond to unexpected events and opportunities. This is also reviewed twice each year. The working balance for 2007/2008 is budgeted to be £1.3 million.

The working balance contains financial provision for assessed service risks and a provision to support future change and capacity, as indicated in the table below.

	Basic provision	£
1	Balance to support cash flow	149,041
2	0.5% of external investments held	70,000
3	The cost to the Council of a Bellwin claim at £300,000	60,000
4	5% of the General Fund Capital Programme, including partnership projects, with a minimum of £150,000	150,000
	Assessed service risks:	
5	The Concessionary Fares scheme	50,000
6	Land Charges accounting regulation changes	50,000
7	Changes to the national Housing Benefit subsidy system	70,000
8	Revenue Contribution to capital (mandatory grants)	90,000
9	Planning Appeals arising from major applications	120,000
	Capacity and change management	
10	Realigning priorities and the medium term finance strategy	200,000
11	Balance for supporting change management and capacity	200,000
12	One off service improvement programme	100,000
13	Total	£1,309,041

6.8 New projects / services

All new proposals are fully appraised in terms of costs and benefits using a robust financial appraisal methodology. Environmental implications, risk assessment and lifetime costs are features of the appraisal methodology. Appendix C sets out the financial appraisal checklist.

6.9 Prudential Code

The borrowing freedoms provided by the code will be considered as a source of capital funding alongside more traditional methods of lease finance and use of capital receipts. Capital expenditure proposals that generate a net revenue income will be prime candidates for borrowing under the code.

7 Value for money and efficiency

7.1 The Council is committed to a programme of continuous service improvement and endless search for efficiencies. We do not shrink from change, even though it may carry known additional risk, because we know from experience that being at the forefront of new developments is one way to secure improvements for the community. We are always keen to challenge delivery of Value for Money (VFM) in Council services and we do this through the following mechanisms:

- Planning for the long term as well as the short term
- Campaigning for a better level of Government grant for the taxpayers
- Involving and consulting customers (including those in 'hard to reach' and minority groups) about the way in which services are delivered
- Using demand and supply analysis
- Undertaking customer satisfaction surveys and holding focus and service user groups
- Reviewing results against original objectives

- Utilising the complaints system as a resource for identifying service improvements
- Increasing productivity associated with investment in new technology and changes in working practices
- Weighing up quality and price, and lifetime costs, because the cheapest is not always the best
- Keeping a tight control on budgets
- Assessing risks before we do anything new and in the services we provide
- Taking account of best practice whether in the public or private sectors
- Attracting external investment so that every taxpayer's £ goes further
- Inviting external challenge of our services
- Maintaining an integrated policy and financial planning process
- Through the work of an Audit Committee, (which conducts two VFM reviews each year) and a Scrutiny Committee, both Chaired by the Minority Party
- Benchmarking our costs and working practices with other organisations
- Maintaining a Performance management system, incorporating an inter-departmental Performance Working Group
- Conducting joint service reviews with other bodies
- Addressing maintenance of buildings and community infrastructure to avoid a future hidden cost for taxpayers
- Seeking external accreditation for service quality eg Chartermark

7.2 Our External Auditors review our performance in securing VFM as part of the annual Use of Resources Assessment as explained in paragraph 1.1.

7.3 The Council remains on track to meet the efficiency savings target set for it by the Government as part of the 'Gershon' efficiency drive across all public services. Our target is to achieve efficiencies with a value of £0.9 million over the 3 years 2005/06 to 2007/08. The way in which are meeting this target is reported each year to the Government through 'Annual Efficiency Statements' which are agreed by the Leader of the Council, Chief Executive and Director of Finance and Community Services.

8 Funding Opportunities

8.1 The Government enables Council Tax discount rates to be varied for second homes and long term empty properties thus providing additional revenue for Councils and the Government where discounts are reduced to the minimum. The Council resolved to reduce discounts to the minimum level in 2004 and to use the additional income generated to support the work of the Local Strategic Partnership.

8.2 Business Improvement District Partnerships can provide additional revenue for specific schemes where groups of business vote to pay higher business rates in order to deliver a programme of improvements that they decide beforehand. We have not pursued this as an option.

- 8.3 The Local Authority Business Growth Incentive (LABGI) Scheme is designed to provide additional resources where councils help generate new businesses within the district, above a nationally set threshold. When the threshold is exceeded the council is able to receive a share of the additional income. In 2005/06, the first year of the scheme, we received £170,671 as LABGI funding, but in 2006/07 growth did not exceed the threshold and no grant was due. The volatility of growth as measured under this scheme is such that it is not prudent for us to anticipate any grant within our Medium Term Financial Strategy.
- 8.4 The Medium Term revenue and capital projections do not take account of the Council's capital receipts generation programme. The value of any receipts will be used to cover the asset improvement/maintenance backlog plan, identified through an independent property condition survey.

9 Partnership Working

- 9.1 Innovative use of partnerships has provided access to funds for the benefit of local communities and the council taxpayer generally. The Council has a good track record of managing complex partnerships that have attracted significant funds into the district and have helped to improve community infrastructure, act as a catalyst to inward investment and improve services. The most recent example is the investment of over £4 million that we secured from the South East England Development Agency for the construction of start-up business units at Denton Island, Newhaven.
- 9.2 The success can be attributed to management of the identified risks, standards of Governance in the partnership and legal arrangements equal to those of the Council and following best practice advice from case studies and professional bodies such as the Chartered Institute of Public Finance and Accountancy.

Appendix A - Funding Council Priorities

1 Funding for Priorities

1.1 Improving the waste management, recycling and street cleansing services to defined standards

- (a)** Resources for the three year service improvement plan agreed by Cabinet in December 2005 continue to be incorporated within the draft estimates.
- (b)** The waste service is now funded to deliver its improvement plan for the next three years. Cabinet will need to review the longer term position in the Autumn of 2007 following publication of the three year grant settlement.
- (c)** The Waste Performance and Efficiency grant for 2007/2008 would have been £80,700. DEFRA has transferred all 2007/2008 district and borough allocations to East Sussex County Council. A request has been made to the County council that the grants are passported back, and we are waiting for the outcome of that request.
- (d)** Adequate provision has been made for Vehicle Renewals from 2007/2008 onwards, with the assistance of the additional recurring contribution of £82,000 approved by Cabinet last year to meet a sequence of heavy renewals over the next three years.
- (e)** The annual recycling percentage achieved is now around 20%. The expectation is that, as the recycling service expands, efficiencies will arise from falling refuse collection tonnage. This is gradually being realised and is built into the 2007/2008 estimates. The future capital needs will be reviewed during 2007/2008.
- (f)** The outcome of the Government's consultation on changes to the recycling credit system for 2007/2008 is still being assessed within the County. There is an indication that the income from recycling credits may increase by at least £40,000 per year. No account has been made at this stage because discussions are ongoing.
- (g)** The Council successfully bid for funds from East Sussex County Council to help deliver better recycling and waste diversion targets. The proposal secured £91,875, being £31,816 in 2006/2007 and £60,059 in 2007/2008. In addition the County Council also awarded a further £34,378 capital grant for 2006/2007 to enhance the recycling service by introducing a cardboard recycling scheme and mini recycling centres at flats.
- (h)** As the roll-out of the service has stabilised no further specific allocation is considered necessary within the General Fund Working Balance.

1.2 Working in partnership with Housing Associations to deliver affordable housing

- (a)** The Land and Assets Scrutiny Panel made a number of recommendations to Cabinet in January 2006 for disposal of council owned land in support of this policy.
- (b)** The Council continues to seek a maximum allocation of affordable homes to rent when negotiating new schemes with housing associations. The preference reflects a shortage of property in this category throughout the district.
- (c)** We are working closely with housing associations that have identified private sites in the district where affordable housing can be developed. We will support their bids to the Housing Corporation for grant funding.
- (d)** The number of planned completions within the district for 2006/07 is 35 and for 2007/08 is 44 units.
- (e)** We will continue to secure the provision of affordable homes in line with the Council's supplementary planning policies, in respect of housing developments throughout the district.

1.3 The Customer Access Project. Improving public access to services through a new contact centre supported by IT systems

- (a)** The project has advanced during 2006/07. A new corporate document imaging and post handling operation has been established. There is a phased programme for transferring work to the corporate unit.
- (b)** A review of opportunities for improving telephony and technology is underway. This includes discussions with East Sussex County Council who have an ambitious programme to provide a high speed county wide network.
- (c)** Plans are advanced for the improved customer access point in Seaford. The target is to move in by May 2007. The premises are at 37 Church Street, Seaford and will be shared by the Police, Seaford Town Council, The Lewes and Seaford Citizens Advice Bureau and Lewes District Council. The Council allocated £65,000 towards this project.

1.4 The Wave Leisure Trust

- (a)** Wave Leisure, a not for profit charitable organisation commenced management of the Council's Leisure Centres from April 2006. The benefit of this arrangement is a stronger customer focus and the generation of significant cash efficiency savings. These are estimated to amount to £1m over five years. They are needed for investment in this capital intensive service. Improved services for the public and investment in the buildings will help maintain the quality of life and local environment for the community.

- (b) The programme of backlog maintenance has already commenced and is being advance funded by using the working balance in the first two years. The main revenue savings from the Trust will be generated from 2009/2010 onwards and will be allocated to meet major works and maintenance obligations that remain the Council's responsibility.
- (c) During the current year Cabinet agreed to bring forward the £220,000 programme for new fitness facilities at Lewes Leisure Centre from 2008/2009 to 2007/2008. These works have been advance funded from useable capital receipts in order to provide better services and generate efficiency savings a year ahead of schedule.

1.5 Funding for Core Services

- (a) The Council still relies upon specific government grants to fund several of its core statutory services. These include the Housing Benefit Administration grant, the Planning Delivery Grant and the Homelessness grant. A new specific grant towards implementing smoke free legislation has recently been introduced. The grant we received for waste performance and efficiency has now been given directly to the waste disposal authority by DEFRA.
- (b) No budget provision has been made for any Local Authority Business Growth Incentive Grant due to the unpredictability of calculations which are beyond the Council's control.
- (c) A number of reserves have been established to underpin the delivery of core services.

2 Key partner priorities

2.1 The Council takes account of priorities set by its key partners. In relation to demands upon the Council's funding and staff resources, the main partners are the Local Strategic Partnership, The Crime Reduction Partnership, The South Downs Council for Voluntary Service, the Lewes and Seaford Citizens Advice Bureau and Action In Rural Sussex.

2.2 Local Strategic Partnership (LSP)

Due to the withdrawal from this partnership by East Sussex County Council and the Sussex Police Authority, Cabinet considered the funding position at its December meeting and provided sufficient funds to continue the work of the Area Partnership Development Workers during 2007/2008. The LSP will have a budget of around £52,000 in 2007/2008.

2.3 Crime Reduction Partnership (CRP)

The partnership has an estimated gross budget of £292,210 for 2007/2008. It receives income from the Home Office, East Sussex County Council and Sussex Police amounting to £197,130 and Lewes District Council funds the remainder of £95,080 which covers administrative and office support. The budget pays for a range of additional police services, and services provided by public sector and voluntary organisations to help reduce crime and disorder in the district.

Funding previously received by the Council is now redirected to East Sussex County Council as part of the Local Area Agreement arrangements. The County Council has agreed to passport the money back to us in 2007/2008 and later that year will announce the allocation for 2008/2009.

2.4 The South Downs Council for Voluntary Service (SDCVS)

The Council continues to provide an annual grant of £24,900 which includes an increase to take account of inflation. SDCVS participates in the LSP and is leading on a number of its individual priorities and projects. SDCVS also supports the network of area partnerships within the district. It independently oversees race incident reports completed by the Council, through the offices of Sompriti.

2.5 The Lewes and Seaford Citizens Advice Bureau

The Bureau has an interaction with many of the Council's services and is able to provide independent advice to members of the public. The Council has assisted the Bureau with its work which extends to helping communities in greatest need. Specific project funding has been set aside in the Council's Partnership Fund to help with these aims. The Council is also working with the Bureau to move into new offices at 37 Church Street, Seaford. The annual grant for 2007/2008 will be £80,640.

2.6 Action in Rural Sussex (AIRS)

During 2006/07 all Councils in East Sussex signed up to a three year service agreement with AIRS to provide a greater degree of funding security in return for a specified range of outcomes. The grant for 2007/08 will be £6,360.

Appendix B – Earmarked Reserves

Reserve	Actual Balance at 1 April 2006	Projected Balance at 31 March 2007	Estimate 2007/2008		
			Contrib to reserve	Total Use of reserve	Balance at 31 March 2008
	£'000	£'000	£'000	£'000	£'000
General Fund					
Budget Carry Forward	214	-	-	-	-
Building Control Charging Scheme	34	39	72	26	85
Clean and Green Reserve (new)	-	69	-	63	6
Community Grants	29	20	-	-	20
Community Leisure Building Repairs	81	-	-	-	-
Corporate Building Repairs	135	53	50	50	53
Financial Systems	9	9	-	-	9
Housing Benefit standards and improvements	100	40	-	40	-
Housing Development	195	195	-	-	195
Insurance	226	222	-	2	220
IT Replacement Equipment	200	104	12	96	20
Leisure Buildings Repairs	93	93	67	67	93
Leisure Trust	71	2	60	60	2
Leisure Trust Buildings Maintenance (new)	-	-	104	104	-
Lewes Leisure Centre Buildings Repairs	1	-	-	-	-
Partnership Fund	148	38	-	14	24
Planning Delivery Grant	486	327	54	221	160
Rent Deposit Guarantee Scheme	52	52	-	-	52
Revenue Equalisation and Asset Maintenance	1,089	1,177	280	156	1,301
Southover Grange Improvements	41	41	-	-	41
Vehicle Replacement Reserve	1,553	1,264	216	522	958
<i>Partnership Projects</i>					
Denton Island Reclamation	70	69	-	-	69
Newhaven Fort Refurbishment	33	19	-	-	19
West Quay Development	42	42	-	-	42
Total	4,902	3,875	915	1,421	3,369

Appendix C - Financial Appraisals Checklist

When considering service proposals of either a revenue or capital nature please use the following checklist in order to quantify and assess the impact upon the Councils' Policy Programme and financial strategy. These points should be addressed, as appropriate, within the relevant part of your report.

Service proposal:

- 1 Is the proposal linked to the Councils' Policy Programme?
- 2 What are the benefits of this proposal?
- 3 What will happen if this proposal is not approved?
- 4 Has more than one way of achieving the outcome been considered?
- 5 Is any form of joint working with other public / private agencies possible?
- 6 What performance indicators will be set as a consequence of this proposal?
- 7 Quantify additional community use / benefit arising from the proposal.
- 8 What impact will this proposal have on existing services either within the Council or the community at large?
- 9 Does the proposal have staffing implications?
- 10 What is the timescale of the proposal?
- 11 Is the proposal a statutory duty or is it covered by discretionary powers of the Council?

Financial issues:-

- 12 What impact does the proposal have on the recurring base budget?
- 13 Is there an approved budget?
- 14 Have the VAT implications been assessed by the Accountancy Section including any impact on the Council's "partial exemption" position?
- 15 Will this proposal generate additional income or save existing costs?
- 16 Does this proposal affect the General Fund, Housing Revenue Account or any other Statutory accounts?
- 17 If the proposal is of a capital nature will it involve set aside capital receipts, either as income or expenditure?
- 18 Have you calculated the part year, full year and lifetime cost of this proposal?
- 19 Is the project of a revenue or capital nature?
- 20 Does the proposal attract matched or levered external funds or Supplementary Credit Approvals?
- 21 Can any funds be expected from one of our partners, e.g. from the LSP?
- 22 Are there any clawback clauses or restrictions attached to funds from outside bodies?
- 23 What are the cashflow implications of the proposal & will the Council gain or lose interest?
- 24 What are the implications in terms of a band D council tax rate?
- 25 Have you verified the appraisal with the Financial Services Manager?

Financial Implications:

The purpose of this section is to provide a clear and concise summary of the costs and income of the proposal going to Cabinet. It should also address risk issues including clawback provisions, if attached to a grant offer. It brings together sums that may be referred to elsewhere in the report and that may be introduced for the first time within this section. It is easier to grasp the financial issues in summary form rather than having to jump about a report and piece the bits together.

The intention of this section is to provide a user friendly summary for readers of the report. Each report will therefore need this section to be tailored to suit the circumstances. The over riding principles that will apply are:

Revenue Effects:

- ◆ Part year(s) impact must be shown.
- ◆ Full year impact must be shown.
- ◆ Must specify whether it is a recurring or non recurring impact.

Capital Effects:

- ◆ Total project cost must be stated.
- ◆ Revenue impact must be stated (even if it is a nil impact).
- ◆ Phasing over years must be shown.

General:

You must state whether:

- ◆ The proposal is contained within existing budgets and if so, what the budgets are.
 - ◆ This is a proposal for which there is no budget and a supplementary estimate is required.
- A suggested framework that can be adapted as required is shown below.

REVENUE / CAPITAL (indicate as appropriate)	Part year effect Year 20xx £	Part year effect Year 20xx £	First Full Year Impact 20xx £
Cost: (Provide appropriate cost headings)			
Expenditure sub-total			
Funding: (Provide appropriate headings)			
Income sub-total			
Net cost / saving			

Appendix D – Medium Term Budget Outlook 2007/08 to 2010/11

	Variables used in the calculations below	2007/08	2008/09	2009/10	2010/11
1	Percentage Increase in formula grant	0.00%	2.00%	2.00%	2.00%
2	Provision for pay and price changes	3.00%	3.00%	3.00%	3.00%
3	District Tax Base	37,545.90	37,745.90	37,945.90	38,145.90
COUNCIL TAX CALCULATION					
Recurring Expenditure/Income excluding Wave L					
		2007/08	2008/09	2009/10	2010/11
		£	£	£	£
4	Lewes District Council's Budget outlook - budget requirement	11,735,823	11,774,823	12,183,068	12,498,560
5	Provision for an extra 0.5% pay award	42,000			
6	Annual inflation provision		353,245	365,492	374,957
7	Efficiency savings target	-50,000	-50,000	-50,000	-50,000
8	Pensions - anticipated increase at next valuation		80,000	0	0
9	Potential for Service Improvements/ delivering Priorities				
10	Improvement plan for the waste service : recurring cost from 2008/09		25,000		
11	Improvement planning and new priorities	47,000			
12	Total recurring spending levels	11,774,823	12,183,068	12,498,560	12,823,517
13	Recurring Expenditure / Income associated with Wave Leisure				
14	Normal Service Fee	869,470	838,000	811,000	865,000
15	Client contractual maintenance obligations	103,500	97,900	139,500	136,400
16	Client non contractual obligations	70,000	80,000	43,750	145,750
		1,042,970	1,015,900	994,250	1,147,150
17	Non recurring				
18	One-off revenue contribution to capital	278,000	250,000	238,000	139,000
19	Investment income returns	-300,000	-250,000	-200,000	-100,000
20	Contaminated land management	36,000			
21	Total non recurring expenditure	14,000	0	38,000	39,000
22	Total Expenditure	12,831,793	13,198,968	13,530,810	14,009,667
23	Year on year percentage rise in spending levels	4.59%	2.86%	2.51%	3.54%
24	<i>(Less) External Finance:</i>				
25	Revenue Support Grant				
26	Share of National Business Rates	0	0	0	0
27	Formula grant Total External Finance	-6,091,837	-6,213,674	-6,337,947	-6,464,706
28		-6,091,837	-6,213,674	-6,337,947	-6,464,706
	<i>Less Internal Finance:</i>				
29	Collection Fund Balance	-58,600			
30	Contribution from the Working Balance	-144,803	-128,300	0	0
31	Total Internal Finance	-203,403	-128,300	0	0
32	Amount to be raised from Council Tax	6,536,553	6,856,994	7,192,863	7,544,960
33	Year on year pounds rise in Council Tax needs	338,401	320,441	335,869	352,098
34	Year on year percentage rise in Council Tax needs	5.46%	4.90%	4.90%	4.90%
35	Lewes District Council's own band D tax	£174.09	£181.66	£189.56	£197.79
36	Year on year rise in band D tax	£7.25	£7.57	£7.90	£8.23
37	Year on year percentage increase in tax	4.348%	4.346%	4.345%	4.345%
38	General Fund Working Balance at start of year	1,453,844	1,309,041	1,180,741	1,180,741
39	Contribution into / (from) balances	-144,803	-128,300	0	0
40	End of year balance	1,309,041	1,180,741	1,180,741	1,180,741