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OXFORD CITY COUNCIL

Report of: Heads of Finance

To: Value and Performance Scrutiny – 2nd September 2008
City Executive Board – 3rd September 2008

Item No:

Title of Report: Medium Term Financial Strategy

Summary and Recommendations

Purpose of report: To introduce the Medium Term Financial Strategy setting our the Council's key financial policies

Key decision: No

Board Member: Councillor Ed Turner

Report Approved by:
Councillor Ed Turner
Jeremy Thomas, Legal & Democratic Services

Policy Framework: Financial Stability

Recommendation(s): That City Executive Board approves the Medium Term Financial Strategy.

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Background papers: None

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OXFORD CITY COUNCIL

Medium Term Financial Strategy

2009-10 to 2011-12
Version 5

DRAFT
Medium Term Financial Strategy

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Medium Term Strategy

Executive Summary

The Council's Corporate Plan 2008-11, developed with partners across the city and agreed with cross-party support, sets out the Council's new vision - to make Oxford a world-class city for everyone. It also sets out how we are transforming the way that the Council does business so that we are better able to play our part in achieving this. We intend to become a world-class city council, delivering high quality services and excellent value for money for all our citizens.

This Medium Term Strategy acts as a corporate business plan for the Council, showing how we will finance and deliver the Council's Corporate Plan.

The context within which the Council works continues to change at a rapid pace. Nationally, economic conditions are turbulent, we are in the middle of another round of challenging local government pay negotiations alongside challenge to the Council's approach to single status ie earned pay; and the Comprehensive Spending Review requirements continue to bite. Locally, the arrangements for delivering LAA2 and the Comprehensive Area Assessment will have a significant impact on the way the Council shapes and delivers its priorities.

The world around us is changing and the Council, if it is to continue to play a meaningful role for the city and its communities, needs to change as well. This is the purpose of the Council's transformation agenda aimed at improving services and value for money.

We are implementing a new management structure that is focusing more effectively on the needs of the city and reducing management costs. We have appointed a Transformation Manager with a remit to develop back-office shared service arrangements, modernise working practices and processes in the back office, create a fully empowered and integrated front of house customer service centre and improve the scope and take-up of web transactional services.

We are evaluating service delivery options so that we can improve the services and value for money that we provide.

We are also implementing an unprecedented efficiency drive. The Council's net services spend in 2006-7 was £28.8 million. To balance the revenue budget £4.1 million in efficiency savings and de-prioritisation was agreed for 2007-8, of which 82% has been achieved, the balance being met by alternative cost reductions. A further £3.9m of budget reductions have been agreed for 2008/9. A total budget reduction of £7.1 million, equivalent to 25% of the net budget will have been achieved over 24 months. There will be a need for this efficiency drive to be continued throughout 2009-10 to 2011-12. When the budget for 2008-09 was set it was envisaged that savings of £3.6m, or on average 4% of net service expenditure, would need to be saved, exceeding the annual efficiency target established in the Government's Comprehensive Spending Review. The impact of higher inflation and energy costs together with much higher demand than predicted through the national concessionary fares scheme means that the savings targets is now £3m for 2009-10 and 18% of net spend over the three years. To achieve this level of savings the Council will:

- Continue to review its Corporate Plan so that the 2009-10 to 2011/12 three-year plan is appropriately aligned with the Oxfordshire Local Area Agreement II. This review will include a budget prioritisation exercise using activity costing techniques aiming to reduce expenditure on lower priority areas. Both prioritisation and efficiency drives will be required to achieve the necessary level of savings.

- Appoint a Corporate Property Manager with a remit to centralise asset management and improve the rate of return on the corporate portfolio and rationalise operational assets, including offices, depots and leisure facilities.

- Appoint a Transformation Manager and team to manage efficiency programmes, with the aim of improving services while we improve efficiency.

- Agree a new corporate procurement strategy which involves market testing current in-house services on a five-year rolling programme as well as introducing e-ordering and payment systems to reduce transaction costs.
- Agree a workforce strategy aimed at investing in workforce development, reducing lost time due to sickness, increasing productivity and reducing the workforce size, and implementing single status.

- Carry out risk assessments on the savings proposals and performance-manage their implementation.

- Invest in change and efficiency, harnessing the £800,000 Invest to Save fund to pump prime efficiency projects using Prudential borrowing and revenue funds from in-year budget windfalls, and the £900,000 Transformation fund to enable major service improvements. .

- Use Prudential borrowing funded by increased contributions from the revenue budget to reduce the asset repair backlog prioritising areas which impact on efficiency by energy conservation measures and income generating investments in trading areas.

- Ensure the Council's charging strategy and policies move towards higher levels of cost recovery whilst not making services unaffordable for households on limited incomes.

In terms of the Council's Capital Investment Programme, the Council's major investment is meeting the Decent Homes Standard for its Council tenancies; ensuring its own operational buildings are properly maintained, the repairs backlog is reduced and energy efficiency is improved; alongside reducing fuel poverty in the private sector. The Council wants to move away from funding non-HRA capital spending by selling assets, as this is not sustainable. In future, selected asset sales will be banked into an investment fund to generate future revenue income. Borrowing and revenue contributions will be used to fund investment where there is a sustainable business case. The medium-term aim of the Council's efficiency drive and asset management review is to generate an annual revenue contribution towards capital investment. This investment would be used to reduce the repairs backlog on the Council's retained assets and improve services.

This medium-term financial strategy is built on the following key policy commitments:

- Generate cashable savings of £5.2 million from the 2008-09 budget position by 20011-12. This will be achieved by a combination of efficiency measures and de-prioritisation of some services.

- Maximise the long-term revenue benefit of its commercial assets.

- Not to reduce balances to fund ongoing revenue expenditure.

- To plan for a balanced budget.

- Reduce the repairs backlog on assets year on year.

- To use Prudential borrowing to reduce repair backlogs if the revenue impact can be afforded within a sustainable balanced budget and to use it for Invest to Save projects based on robust business cases with reasonable pay-back periods.

- End the dependency on capital receipts to fund the General Fund Capital Programme.

- Move towards charging full cost for services in trading areas introducing an Oxford card to give residents a discount over visitors and targeting discounts to low income groups to provide access to services.

- To set Council Tax increases below the Government's 5% capping limit and at a level linked to the retail price index.

- Plan a sustainable housing revenue account and achieve the Decent Homes Standard by 2010 and maintain this level in future years.

Peter Sloman

Chief Executive

Medium Term Strategy

2. Purpose and Scope

2.1 This medium term strategy is the key document in Oxford City Council's corporate planning process.

2.2 The strategy:

- Sets out the contextual issues that impact on the Council's corporate planning processes
- Aligns strategy and resources
- Sets out the implications of decisions the Council has already made
- Models potential changes, such as the effects of inflation and changes in grant funding.

2.3 The strategy supports our long-term objectives of transforming the Council's services so that it can play its role in building a world-class city for everyone.

Scope

2.4 This strategy provides an integrated view of the whole of the Council's services covering:

- National context
- Local context
- Council priorities
- Capital and revenue spending
- Human resources
- Information technology
- Asset management issues
- Treasury management
- Risks and uncertainties

Part A: Policy Context and Priorities

3. Policy Context

3.1 The improvement of our public services and increased efficiency has been a core policy theme for this Government. This theme cuts across all areas of service delivery. It has been supplemented recently by a concern with localism.

Improvement of public services

3.2 The Government's ambitions in relation to public services are set out definitively in *Strong and Prosperous Communities: The Local Government White Paper.* The White Paper sets out a vision of high quality, efficiently delivered local services that are shaped by local authorities to focus on the needs of citizens.

3.3 This Government, in common with those that preceded it, has in general taken a centralized, standardized approach to public service delivery and improvement. While local authorities are responsible for delivering local services to address local needs, these must be developed and monitored within a tight framework of national standards. Oxford City Council's policy framework and current corporate priorities have developed within this context. Equity and social cohesion have been at the heart of the national and local improvement agendas.

3.4 The Government has recently replaced the national indicators associated with the Best Value regime with a new set of national indicators linked to the Local area Agreement agenda. The new indicators allow central Government to retain its national framework of standards while at the same time relocating a degree of accountability to local partnerships.

Efficiency

3.5 Efficiency has been the key to the Government's agenda from the beginning. The 1999 Act that introduced Best Value attempted to embed efficiency and effectiveness into public service improvement and was the first step in linking efficiency and shared services. This was strengthened by the 2000 Act which, through the creation of community strategies and local strategic partnerships, explicitly advocated shared services arrangements.

3.6 Chapter 7 of the Local Government White Paper relaunches the efficiency theme under the service transformation banner. Service Transformation involves:

- Business process improvement (redesign around customer needs)
- Collaboration
- Smarter procurement and use of competition
- Better use of technology
- Asset management.

The Business Transformation Strategy being developed at Oxford City Council reflects these themes.

3.7 Subsequent Government directives on efficiency and shared services have become increasingly impatient and directive.

3.8 As a result of the 2007 Comprehensive Spending Review (CSR07) all public services have been set a specific target of achieving at least 3% net cashable efficiency gains per annum over 2008-09 to 2010-11. This amounts to £4.9 billion for local authorities. The Gershon report was adamant that these efficiencies could only be achieved through large scale shared service arrangements.

3.9 Central Government provided a major impetus to the efficiency/shared services agenda when it decided last year to review local governance arrangements in England. That review aimed to make local governance more efficient through the imposition of either unitary or enhanced two-tier arrangements. The outcome of that process was the creation of several very large unitary counties. The Boundary Commission has recently overturned apparently successful unitary bids from Norwich and Exeter in favour of county unitaries.

3.10 The Local Area Agreement 2 process is at least in part a mechanism for encouraging/enforcing shared working, particularly in two tier areas.

3.11 Oxford City Council's recent responses to these developments in national policy carry a very positive message for our future direction of travel.

3.12 Oxford City Council's bid for unitary status in January 2007 was not successful. However, the process of preparing it has had a significant impact on the city council's post-bid ambitions. The shift in relationships between local authorities in Oxfordshire during the course of the bidding process has reinforced this impact.

3.13 The most important of these involves partnership working. Oxford City Council's bid clearly identified the key challenges facing the city. It remains the Council's view that a unitary authority for Oxford could best meet the challenges facing our urban multi-cultural space. However, these challenges must be met, regardless of whether there is unitary or enhanced two-tier governance. Under the system decided by central Government the City and County Councils have joint custodianship of the city’s interests. The City Council’s post-bid ambitions have been articulated in these partnership terms.

3.14 Oxford’s bid proposed replacing current governance arrangements in Oxfordshire with three new unitary authorities; shared services would have been at the heart of new service delivery arrangements. Post-bid, the city council is working towards better coordination of services with both district and county councils, using a variety of different models.

3.15 We have entered into a partnership arrangement with the County Council in relation to day-to-day management of our IT service. The Waste Partnership is also has formalised arrangements for the collection of waste and waste disposal across all of the District and County Councils, laying the foundations for the development of a shared service arrangement.

3.16 The City Council has appointed a Partnership Development Manger to improve internally how it works in partnership. The aim is to improve the communication and coordination across services and to ensure members and staff understand developments and are able to effectively input into discussions about service delivery. This post also has a role in ensuring that the City Council is effectively represented at key Partnership meetings and to ensure that the City's needs are taken on board and addressed within a range of Partnership Strategies. Thus ensuring that more effective and efficient services are delivered in the City.

3.17 Having a stronger leadership role has meant that the City has been able to influence the adoption of some key objectives which will help to address the needs of the City, such as Breaking the Cycle of Deprivation in the Oxfordshire Strategy 2030. This in turn has influenced the prioritisation of Local Area Targets will eventually influence the allocation of the Area Based Grant.

3.18 The Chief Executive has taken a lead across the districts in Oxfordshire in coordinating and prioritising District Local Agreement Priorities. This has led to the District Councils jointly agreeing their top 12 priorities and to these being contained within the Local Area Agreement. The District Councils are now directly delivering a number of these targets. This has led to improved collaboration on the delivery of these services across the county.

3.19 Given this success the City Council has been funded through the MKOB and South East Centre of Excellence to develop enhanced two tier working within the County. This will enable us to further develop collaboration across district councils so that they can add weight, influence and effectively engage with the Oxfordshire Partnership, Public Service Board and Key Theme Partnerships.

3.20 The City Council has also been involved with a review of all the Key Partnerships in Oxfordshire with a view to ensuring effective governance arrangements for all those partnerships involved in allocating the Area Based Grant and Local Area Agreements, including: simplifying and strengthening reporting arrangements, ensuring effective membership and reducing duplication.

3.21 The Oxford City Local Strategic Partnership has recently adopted a new Community Strategy, with the key themes of:

- Affordable Housing
- Health and Social Inclusion
- Climate Change
- Quality of the Public Realm for Residents and Visitors
- Safer, Stronger, more Cohesive City

3.22 This Strategy demonstrates how it will contribute towards the draft Oxfordshire Strategy 2030 and the delivery of Local Area Agreement Indicators and Targets. The Partnership has reviewed and extended its membership to better reflect the priorities contained within the Strategy and to encourage improved collaboration across key agencies within the City.

3.23 These partnership initiatives represent a significant shift in strategic direction on the part of the City Council. In time this will result is a similar shift in the way that we deliver services for our citizens. The transformation journey on which the Council is now embarked will guarantee this.

Localism

3.24 Central Government's vision in relation to public service improvement has shifted to the extent that recently, it has been seeking to position itself in relation to the localism debate. This is an important development so far as Oxford City Council is concerned given that we already have a strong track record of working to engage local people in the decisions that are important to their communities.

3.25 Government's first localist formulation was through the concept of double devolution – central Government devolves to local government and then local government devolves to the community. Recently, the Government has strengthened this message.

3.26 The Sustainable Communities Act 2007 is based on the principle that local people know best what needs to be done to promote the sustainability of their area.

3.27 In his foreword to the Cabinet Office paper *Excellence and Fairness: achieving world class public services*, Gordon Brown places the concept of world class public services at the heart of any civilised society and citizen empowerment at the heart of world class services. Being world class should involve a three-way partnership in which:

- Citizens are empowered to shape services
- Public service professionals act as catalysts for change
- Government provides strategic leadership.

3.28 The Empowerment White Paper*, Communities in Control*, includes a duty to promote democracy that will encourage a range of actions including:

- Improved engagement with young people
- Programmes to develop leadership skills for community leaders
- The involvement of residents in delivering services or managing council amenities.
- Updating and making more visible to the public the powers of overview and scrutiny, e.g. local senior public officers may be required to face public scrutiny as a result of a resident's petition.

3.29 Consultation has recently closed on "Participatory Budgeting: A Draft National Strategy: Giving more people a say in local spending". While detailed Government proposals are awaited it is likely that by 2012 local authorities will be required to give local communities direct influence about how specific budgets are spent.

3.30 This policy shift is important in that it can contribute to our own thinking about devolution. The Area Committee system was intended to move us in this direction and we are looking to further improve our arrangements for community engagement.

3.31 The terms in which this policy shift is expressed also raises potential problems. The use of the term "local" in recent Government pronouncements often refers to people at the local level rather than local authorities. This potentially raises issues for us in terms of equity and efficiency.

The Council Priorities 2008-2011

3.32 The Corporate Plan sets out the Council's priorities, driven by our vision to build a world class city for everyone, and measured by 2011 outcomes.. These priorities reflect the national policy agenda and the specific needs of our City. The Council believes that democratic local government can and should make a positive difference to people's lives. Our aim is to work with our partners to build a world class city for everyone.

3.33 The Corporate Plan sets out six strategic priorities, which have been agreed by the Council. These have been developed to ensure that the Council is clear about the direction in which it proposes to move, and the changes that it proposes to make, over the next three years. We had a range of consultation exercises including a Citizens' Jury in November 2007 to help shape our objectives for the coming year.

3.34 The Council aims to continually improve its services and to become an excellent value for money Council. We have identified 22 specific targets for focus in 2008/09. We will be monitoring the achievement of these and all our objectives on a monthly basis. Progress updates will be reported regularly to City Executive Board, the Corporate Performance Board, Scrutiny and all staff. Reports can be seen on the performance page of our website.

More housing, better housing for all

Total 2008/09 Budget = £5,474,197

There is a housing crisis in Oxford. The problems of supply and affordability that are familiar to us in Oxford are now common across the country and have been recognised in national housing policy. We are making progress in tackling and reducing homelessness. We aim to increase the quality and quantity of social and affordable housing and will ensure that houses in multiple occupation are managed in a responsible way.

By March 2009 we will:

- Launch a licensing scheme aimed at improving accommodation standards in the private rented sector.
- Further improve homelessness prevention, reducing the number in temporary and emergency accommodation by 10%. This will help approximately 50 households.
- Increase the number of Council-owned homes meeting the Decent Homes standard to 88%. This will improve 450 homes.

By March 2011 we will:

- Implement the New Growth Points programme and ensure 1,200 homes are built in Oxford from April 2008, of which at least 50% should be affordable on sites of over 10 units.
- Aim to reduce the use of temporary accommodation for the homeless to below 50 households.
- Further develop services for young homeless people which co-ordinates housing, offers advice and training opportunities and helps them into employment.

Stronger and more inclusive communities

Total 2008/09 Budget = £12,158,650

Oxford is experienced by many of its residents as a thriving and affluent city with excellent opportunities for work and leisure. But not all have the same opportunities. We aim to reduce inequality and improve the lives of the most vulnerable members of our society. We support the development of strong, cohesive communities where diversity is valued and communities can come together through local cultural, recreational and sports activities. We want to support social and economic regeneration, particularly in deprived neighbourhoods. We want to ensure that the economic success of the city is shared by all sections of the community. The West End Area

Action Plan will support these objectives by delivering affordable housing, new jobs, and improved retail and cultural opportunities in the city centre.

By March 2009 we will:

- Launch and promote the new national Bus Concessionary Fares scheme for the elderly and people with disabilities, promoting and increasing bus trips into the city centre.
- Improve cohesive communities by supporting the voluntary sector with grant aid of £1.6 million. These grants support a wide variety of activities ranging from welfare advice provision, assisting vulnerably housed/homeless people, arts education programmes, events and neighbourhood projects.
- Support seven of our community associations to obtain the national 'VISIBLE' standard for community organisations. The standard demonstrates and recognises the associations' work for their communities.
- Increase benefits take-up by 20% of the 600 cases already identified as eligible but not receiving Housing / Council Tax Benefit in the city.

By March 2011 we will:

- Implement significant improvement in leisure centres, with greater value for money, increased public satisfaction and take-up by young people and hard to reach groups.
- Demonstrate leadership in employment and service delivery best practice by obtaining Level 3 in the equalities standard.
- Raise the levels of adult participation in sport by 4%. (Active Peoples Survey undertaken by Sport England.)

Improve the local environment, economy and quality of life

Total 2008/09 Budget = £9,919,303

We recognise the importance of the local environment for Oxford's citizens. Our play areas, parks and green spaces should be safe places that bring people together and offer exciting leisure opportunities. We want our neighbourhoods to be amongst the best in the country for cleanliness and tidiness. We want to reduce waste and maximise reuse, recycling and composting, with a long-term goal of reducing landfilled waste to zero. We will work to prevent fly-tipping, littering, graffiti and inappropriate development, taking enforcement action where necessary. We will promote 'home zone initiatives', 20mph zones, and campaign for clean air.

By March 2009 we will:

- Introduce and evaluate a weekly food waste pilot scheme as part of improving recycling arrangements.[1]
- Increase investment in quality outdoor play opportunities for children and young people by £107,000.
- Improve the condition of our streets so that 90% reach the national quality standard.

By March 2011 we will:

- Aim to ensure that 85% of local people are satisfied with their neighbourhood.
- Reduce domestic waste going to landfill by 45%.

[1] The Labour administration has decided not to introduce the food waste pilot pending a review of recycling arrangements.

- Improve the condition of our parks and the level of public involvement in their management, achieving Green Flag accreditation in five of our main parks.

Reduce crime and anti-social behaviour

Total 2008/09 Budget = £1,304,823

Crime and the fear of crime have an adverse effect on all our lives. We want to make Oxford a safe and welcoming environment for people who live and work in the city, and for our many visitors. We are working with partners and, in particular, Thames Valley Police through the Neighbourhood Action Groups, to tackle crime and anti-social behaviour throughout the city. We will fully exercise our powers as a licensing authority to ensure that noise and nuisance is limited and that the saturation zones already implemented are strictly enforced.

By March 2009 we will:

- Complete the roll-out of our Neighbourhood Policing Programme with Thames Valley Police, improving co-operation between street wardens, neighbourhood police officers, park rangers and PCSOs.
- Provide positive activities for young people in the most deprived areas in Oxford by investing £120,000 in free holiday activities for 5–19 year olds.
- Reduce the number of assaults with injury in domestic violence incidents, and all alcohol-related crime and violence.

By March 2011 we will:

- Implement an action plan to improve community cohesion.
- Increase the satisfaction of our communities in dealing with local concerns about anti-social behaviour and crime.

Tackle climate change and promote environmental resource management

Total 2008/09 Budget = £3,934,242

We are committed to playing a leading role in tackling climate change. We are working alongside local businesses and organisations, schools and colleges, communities and individuals to reduce the overall carbon footprint of the city. We have set ambitious targets to reduce carbon dioxide emissions from the Council's own buildings and operations. We want to work together on city-wide carbon reduction initiatives. We also want to ensure that we are prepared to combat the adverse effects of climate change, in particular flooding.

By March 2009 we will:

- Reduce the Council's carbon footprint by investing £400,000 in carbon reduction projects. This will result in a reduction in CO_2 emissions of 800 tonnes per annum (8% reduction compared to 2005/06 levels).
- Provide £100,000 of fuel poverty grants, which will improve energy efficiency and the health and comfort of residents.
- Invest £50,000 in flooding prevention activities such as pumps and barriers.

By March 2011 we will:

- Reduce carbon dioxide emissions from Oxford City Council's buildings and operations by at least 25% compared to 2005 levels.
- Reduce carbon dioxide emissions in Oxford City by 15% compared to 2005 levels.
- Be better prepared for the future impacts of climate change (e.g. hotter, drier summers and heat-waves, warmer, wetter winters and floods) and resource scarcity (e.g. higher oil prices) by implementing a climate change adaptation plan.

Transform Oxford City Council by improving value for money and service performance

Total 2008/09 Budget = £2,939,394

Oxford is an improving Council. We want to be recognised by our customers, staff and auditors as an excellent Council. We want to improve the quality and accessibility of our services, improve customer satisfaction, improve performance and offer better value for money.

By March 2009 we will:

- Implement cost and efficiency savings of £3.5 million from our 2007 base (9% of gross budget).
- Develop a robust asset management plan that rationalises our asset holding, releasing cash for investment and ensuring our buildings have improved maintenance on a sustainable basis.
- Transform corporate systems and examine the business case for shared services with others to ensure cost-effective systems, reducing costs by £200,000.
- Introduce a workforce plan that ensures staff are involved in managing change, are developed and trained and our target of reducing the number of employees by 2% can be achieved whilst improving performance.
- Introduce a corporate approach to managing customers and complaints.
- Meet 90% of our performance targets.

By March 2011 we will:

- Have received recognition from the Audit Commission that the City Council has improved strongly.
- Increase staff satisfaction to 75%.
- Achieve Investors in People accreditation.
- Increase public satisfaction by 10% on the baseline 2006 result.
- Develop a corporate procurement strategy that reduces costs of goods and services bought in by 1% a year.
- Achieve 10% efficiency savings overall from the 2007/08 base and be assessed as level 3 (good) for value for money by the Audit Commission.

Other Corporate Commitments

3.35 Council has also agreed financial support for other priorities, including:

- Keeping Peers swimming pool open until facilities are reprovided on the site in 2010

- Refurbishing all the city's play areas over the next 2 years
- Investment in "Summer of Fun" programme of play schemes and football programmes for young people ..
- Funding transformation projects through a £900k fund.

The Broader Policy Framework

3.36 The Council has agreed or is party to, a range of other policies and strategies, most of which have their own cost implications. These policies and strategies are fully reflected in the Council's Corporate Plan and performance management framework.

3.37 Six of the most significant are:

- Oxford City's Sustainable Community Strategy, Oxford: A World Class City for Everyone, prepared by the Oxford Strategic Partnership. This strategy has been jointly prepared and is jointly owned by a range of agencies (e.g. Local Authorities, the Police, PCT, Universities and others).
- Oxfordshire's Sustainable Community Strategy, Oxfordshire 2030: A Partnership Plan for improving quality of life in Oxfordshire. This strategy has also been jointly prepared and is jointly owned by a range of agencies. This is currently being consulted upon with the wider community and is due for adoption by the end of 2008.
- Flowing from the Sustainable Community Strategies is the Local Area Agreement. This consists of 35 priorities agreed with the Government. These priorities aim to reflect the needs and aspirations of local communities, whether they live in urban areas, market towns, or rural areas.
- Our Housing Strategy, which sets out how we will achieve the Government decent homes standard.
- The Local Area Plan and related strategies, which set out land use in the City through to 2016.
- The draft Local Development Framework "Core Strategy" sets out a long-term vision for how the City area should be shaped over the coming 20 years.

Future Policy Development

3.38 We are currently developing a Business Transformation Strategy 2008 to 2012. Business Transformation is about making fundamental changes to the way the Council works, so that we deliver better services to customers first time, every time, at better value for money.

3.39 Our strategic approach to transformation follows these principles:

- Improve while we change – make both strategic and incremental improvements to secure benefits in the short term and longer term
- People based change – customers, members, staff and other stakeholders at the heart of any change with proactive involvement, consultation, communication and feedback. We will make the change real for people with local changes owned by local staff
- Use of strategic partnerships and resources – take advantage of good practice and services via partnerships and resources that are local, regional and national to improve and deliver services
- Technology as an enabler, not as a leader of change – technology should help change, not be the reason for change
- Financial savings built into budgets – financial savings will be built into department's budgets to help secure the benefits we are seeking. Invest to save benefits will be shared 50% to the department and 50% to the corporate fund
- Performance managed change – all change will be managed to ensure improvements to performance are obtained and linked to outcomes that the Council desires
- Use of innovative solutions to achieve our aims as well as ensuring we provide the basics
- Integrated change – change will be integrated across the Council avoiding bureaucracy but building in controls to ensure consistent change.

3.40 The principles underpinning the Business Transformation Strategy will inform other important areas of policy development e.g. Customer Contact, Asset Management, Incomes Fees and Charges, and Human Resources.

Other issues

3.41 There are other issues that influence how we plan our services and place demands on our finances. These include:

- Standards set by external regulators and Government. A key target is the decent homes standard; which requires our housing stock to all be at a minimum standard by 2010.

- Concessionary Fares

- New laws and regulations (e.g. the replacement of Housing Benefit with local allowances and potential new system of Housing Subsidy for the Councils with their own HRA).

- Demographic changes
- The need to periodically renew IT equipment, and repair buildings.
- Developments by others providing similar services to us (e.g. the expansion of leisure facilities within and near Oxford City).
- Technological changes and demand for web based services.
- Local effects of climate change.

3.42 We have modelled the financial effects of some of these and other factors. These are set out in Appendix G - Risks and Opportunities.

3.43 We plan for these broader uncertainties by holding a minimum level of reserves and, where we have a clearer idea of potential costs, by specific provisions. The minimum level of reserves and agreed provisions is worked out using CiPFA guidelines, details are set out in Appendix H.

The Audit Commission's Annual Audit letter

3.44 Each year the Audit Commission publishes a "management letter". This letter sets out a set of high level recommended actions. The 2007 inspection letter highlights

The last year has been one of greater focus and determination for Oxford City Council and the pace of change and improvement has been impressive. There has been concerted cross-party leadership in pursuit of a more ambitious level of overall improvement. The City recognises that value for money will only improve through clear efficiency targets, partnership arrangements and higher aspirations.

Greater focus will be vital in overcoming the Council's most significant challenge, that of value for money. It has already achieved savings of £3 million in 2007/08 and has set challenging budget targets going forward. In addition it has improved some of its service performance at a faster pace than other councils. However, it has much to do to reach the aspirations and effectiveness of the best. Its ambitious turnaround plans demonstrate that the Council has increased its focus on the priorities of local people and can show leadership and innovation in issues such as climate change and community cohesion.

4. Public Consultation

4.1 We consult widely across a range of issues. Every three years as part of the Best Value Performance Indicators (BVPI) we have carried out a general satisfaction survey as specified by central Government. The BVPIs have recently been replaced by a new performance framework and a new set of National Indicators. Some of these indicators will be measured by the new Place Survey, which will be carried out in Autumn/Winter 2008. The Place Survey is one tool which will be available to Councils and their partners to understand the views of local people. We will use the evidence to build a robust understanding of the City and its people.

4.2 In November 2007 we held a Citizens' Jury about budget setting and priorities. The jury was made up of local residents with the aim of having detailed discussions around budget priorities. A similar exercise was held with focus groups drawn from all sections of the Council's workforce. We will be repeating this exercise as part of preparation of next years Corporate Plan and budget.

4.3 We also have a Citizens Panel, Talkback, which is made up of 1,000 local residents that we regularly consult with. We send the panel 4 surveys a year on a range of topics. We also run focus groups and other detailed discussions with the panel when required.

4.4 A revised consultation strategy and action plan are currently being drawn up for 2008-9.

Part B: General Factors

5. National Economic Strategy

5.1 Budget 2008 sets out how the Government is working to achieve its economic objective to build a strong economy and a fair society, where there is opportunity and security for all. It plans to do this by ensuring that the UK can continue to succeed in the competitive and uncertain global economy and by making the most of the opportunities from the transition to a low carbon economy. The budget is the first official notice we have of possible changes that impact on the Council.

5.2 The key elements of the Government's strategy have been identified as:

- Maintaining a stable economy
- Sustainable growth and prosperity
- Fairness and opportunity for all
- Stronger communities and effective public services
- Protecting the environment

5.3 The key part of the first of these elements is reflected through the macroeconomic policy framework adopted by the Government.

5.4 The Government's reforms of the macroeconomic policy framework are aimed at promoting economic stability by delivering low inflation and sound public finances, as the essential foundation for achieving high and stable levels of growth and employment.

5.5 This is embodied in three main features:

- A monetary framework which is designed to be open and transparent, to deliver low and stable inflation. The Monetary Policy Committee (MPC) of the Bank of England has been given operational independence to set interest rates to deliver the Government's inflation target of 2.0 % for CPI (previously 2.5 % for RPIX) year-on-year

- A fiscal framework has been set out in the Code for Fiscal Stability. This is based around two key principles; the 'golden rule' (whereby the budget deficit would be limited to financing public sector real investment only) and the 'sustainable investment rule'. The Government has clearly stated its intention to strictly apply these rules in order to deliver sound public finances

- A public expenditure regime has been instigated which, together with new three-year spending plans, is designed to provide greater certainty and encourage long-term planning.

<u>Comprehensive Spending Review 2007 (CSR2007)</u>

5.6 Budget 2007 confirmed the overall spending limits for the 2007 Comprehensive spending review (to 2010-11). The key element of the CSR is a comprehensive value for money programme which will be embedded and release the resources to meet new priorities. Headlines are:

  - o Efficiency savings of 3%. Savings to be net and all cash releasing
  - o Current spending to increase by 1.9% per year in real terms
  - o Public sector net investment to rise to 2.25% of GDP

5.7 Local Government finances are set to increase by 4.2% in 2008/09, 3.5% in 2009/10 and 3.4% in 2010/11. These figures include support for projects funded under the Private Finance Initiative. After removing this support, funding for Local Government will see real terms increases of 0.9% in 2008/09, 0.1% in 2009/10 and a decrease of 0.1% in 2010/11. In the formula grant settlement announced in December 2007 shire districts are faced with grant increases of 1.7% in 2008/09, 1.4% in 2009/10 and 1.3% in 2010/11.

5.8 This means that Oxford City must find efficiency savings to find extra resources to fund growth. As the authority moves into another year of efficiency savings, the savings become harder to achieve and may require more upfront investment.

5.10 The Government agrees that Council tax should be retained and remained capped but there will be no changes in bandings or revaluations before the next general election.

Forecasts for pay and inflation increase

5.11 The measure of inflation for the country is the retail price index. This index reflects how costs are rising and is a key measure for Government in determining pay increase. The retail price index is explained further below.

Retail Price Inflation

5.12 Retail price inflation is measured and reported on several different basis of calculation. The main variants are:

- Headline Retail Price Index (RPI) which reflects all factors in the economy

- RPIX which excludes mortgage interest payments (and is favoured by the Treasury)
- RPIY which excludes taxation as well as mortgage interest payments (favoured by the Bank of England)
- Consumer Prices Index (CPI), previously known as the Harmonised Index of Consumer Prices (HICP), which is used by countries within the Euro zone economy. The official HICP index only started in 1996, but historical estimates back to 1988 have been calculated by the Office for National Statistics, based on archived RPI data.

5.13 From December 2003 the operational target for monetary policy switched from a target based on the RPIX to a target based on the CPI.

5.14 CPI rose from 1.8% in September 2007 to 3.3% in May 2008. This index is expected to remain above 3.0% until well into 2009 and then return close to the 2.0% target by the end of 2010.

5.15 The level of RPI has also risen from 3.9% in September 2007 to 4.3% in May 2008.

5.16 The government has a CPI target of 2% and all pay policies are aligned to this.

5.17 For the purposes of financial planning, we have used 4.3% for general inflation to the Council's budget. For some purchases we have allowed for more where we know costs are rising more steeply (see appendix M for budget assumptions). Detailed analysis of the impact of rising fuel and energy prices is being undertaken and is a key budget pressure.

Pay Award

5.18 The Government has made it clear that pay settlements must be consistent with the CPI inflation target of 2% and announced on March 1st 2007 that the headline awards for pay bodies in 2007-8 should aim to be less than the 2% and should average 1.9%.

5.19 Oxford employees' pay increases are the result of national negotiations between employers and unions. The 2004-5 pay negotiations resulted in a three-year agreement covering the period through to the end of 2006-7, with increases of 2.75%, 2.95% and 2.95% being agreed.

5.20 2007-08 was the first year following the three-year pay agreement and the pay award was finally settled at 2.475% in late 2007. The budget assumes a 2.5% increase for the 2008-9 financial year, however the pay award has not yet been settled for 2008-09. Given higher inflation we are including an uplift of 3.5% for 2009-10 only before returning to the medium term projection of pay increasing by 2.5% each year.

5.21 Given that the pay modelling over the 3 year MTFS model requires us to make assumptions on pay awards, there is the likelihood of the award being different that than modelled. The table below demonstrates how a 1% error in the forecast impacts on cost.

5.22 A change of +/- 1% in the level of Pay Award for future years would have the following impact on each of the Council's service areas:

Service area	*Effect of 1% change in employee costs*
General fund	*£370,000*
Housing Revenue Account	*£130,000*
Total	*£500,000*

5.23 The other key impact on payroll costs is the impact of the current Single Status (job evaluation exercise). There is more on this in Chapter 8.

Interest Rates forecast

5.24 Interest rates are important to the City Council as we have between £35 million and £45 million of funds lent out (the amount varies at the time of year). Most of our loans are made at or close to prevailing interest rates.

5.26 The credit crisis provoked a significant change in the bank of England's assessment of UK economic prospects over the medium term. It was clearly concerned that the tightening of liquidity and the consequent rise in borrowing rates across the entire economy could lead to a rapid slowdown in activity. This would help to contain inflation pressures. The bank rate was cut by 0.25% on two occasions, December 2007 and February 2008, to 5.25%.

5.27 A further reduction in the base rate was made in April 2008, which now stands at 5%. The outlook for the UK economy has deteriorated and the Bank of England has indicated that monetary policy will err on the side of caution, at least for the foreseeable future.

5.28 Domestic activity is set to decelerate sharply in the next few quarters and while a recession is not expected, the quarterly rate of growth is likely to be very modest. The annual rate of expansion will fall to between 1.5% and 2%, the slowest for more than 10 years.

5.29 The base rate is currently at 5% where it is expected to stay, with a slight increase towards the end of 2008 before falling to a potential low of 4.50% by the end of 2009.

5.30 Although the base rate is at 5% the market rates are currently much higher, this is because the market rates are based on the LIBOR (London Interbank Borrowing Rate) rates, which currently stands at 6% for the 3 month rate, and 6.5% for the 1 year rate.

5.31 The Bank of England introduced a Special Liquidity scheme designed to move the market log-jam, but this failed to have much impact on the LIBOR rate. By the end of June 2008 the official interest rates in the UK were discounting an imminent tightening of monetary policy. Persistent illiquidity in the money market ensured the wide margin between official and market rates failed to narrow and deposit rates beyond the 3 month area remained above 6%.

5.32 Into the future the predictions are that the LIBOR rates will remain above the official base rate, but the gap will close, and by the end of 2009 it is expected to be at 5% for the 3 month rate and 4.7% for the 1 year rate.

Effect of interest rates Oxford City Council

5.33 Assuming an average cash holding of £40 million, a quarter point increase in interest rates is worth £100k broadly equivalent to a 1% rise in Council Tax.

Credit crunch

5.34 The previously mentioned forecasts for inflation of 4.3% and pay 2.5% portray falling standards of living as inflation outpaces salary growth. The governor of the Bank of England has only recently warned families to prepare for a freeze in their standards of living in the coming year. Real disposable incomes fell by 1% in the first three months of 2008[2]. Real disposable income represents families' earnings after rises in the cost of living, the price of borrowing and taxes. It means that families have less money to spend.

5.35 The City Council relies heavily on income from fees & charges. The Council currently budgets for £22m from income streams including £2.9m from Leisure, £7.1m from car parks, £6.5m from commercial property rents. If disposable income is falling there is a real risk that families will reduce their usage of the car parks, leisure centres etc. The housing market downturn is already leading to reduced numbers of planning applications and will affect income from land charges and building regulations fees. If the full 1% reduction in disposable income were felt in reduced use of Council services then at least £100k could be lost in income. At this stage it is difficult to assess the impact of the dip in the economy as there will different sensitivities to reduced income for each service.

[2] Office of National Statistics

5.36 If the economy goes into full recession there may be an increase in homelessness applications and acceptances leading to increases in temporary accommodation costs and an increase in Housing Benefits paid.

5.37 The downturn in the economy may place pressure on the development of the City Centre. The Council has two major developments (the Westgate and St Aldate's) that it is particularly closely involved in and it remains to be seen whether these developments will progress to original timescales. City development officers are already reporting a slowdown in planning and building control applications whilst income officers are seeing an increase in the number of payment terms being negotiated. The City Council needs to keep a close eye on commercial property income and income from trade waste during this period.

5.38 In the last three months a number of property disposals have fallen through. These disposals were earmarked to fund the capital programme. Officers are keeping a close eye on capital funding streams and are reviewing whether it is worth pursuing some earmarked disposals at this point in time. The credit crunch also provides an opportunity in respect of the Council's property holding. It has been a long-term aim to buy property where it would help consolidate the Council's current ownership and the Council is actively seeking these opportunities.

5.39 In summary, the credit crunch impact on the City Council financial position is uncertain. The impact will be picked up quickly through the Council's monthly financial monitoring and through the project boards that monitor the larger projects like the Westgate Development.

6. Demographic Factors

Population

6.1 Population is an important factor to consider when undertaking budget forecasting for Local Authorities.

6.2 Total population is one of the key factors in determining both the level of the new Formula Grant (FG), which the Government gives the Council and the share of the National Non-Domestic Rates (NNDR) Pool, which the Council receives.

6.3 What is important in both cases is not just the rate of growth or decline in the City's population level in isolation, but the change relative to the National trend. The most conservative estimate of the City's population growth (see Appendix F) suggests that it will be in line with UK population growth over the period 2001-2011. Another estimate suggests that the City population will grow faster than the UK.

6.4 The main impact from the Census 2001 for the Council was a 10% reduction in the *measured* resident population figure, from 149,100 (2000 Mid Year estimate) to 134,200 (2001 census)

6.5 A variety of factors could explain this outcome. The high level of international migration attributed to the City and County could have been overstated (it is based on information from the International Passenger Survey). An overestimation of the impact of 'under-enumeration' in the 1991 Census might also have been a factor.

6.6 At present, Oxford's grant position is protected by a "floor adjustment" which gives the City a basic increase in revenue support grant, though significantly less than increases enjoyed by most other Authorities in the last few years.

6.7 There is a risk that, although our Relative Needs Amount will continue to gradually increase in the next few years, it will then face a further 'downward correction' when the 2011 Census data is collected.

Demographic Factors

6.8 Demographic factors are important as they affect the Council's planning in several ways:

- Changes in total population affect the Council's entitlement to Government grant under the current grant distribution formula

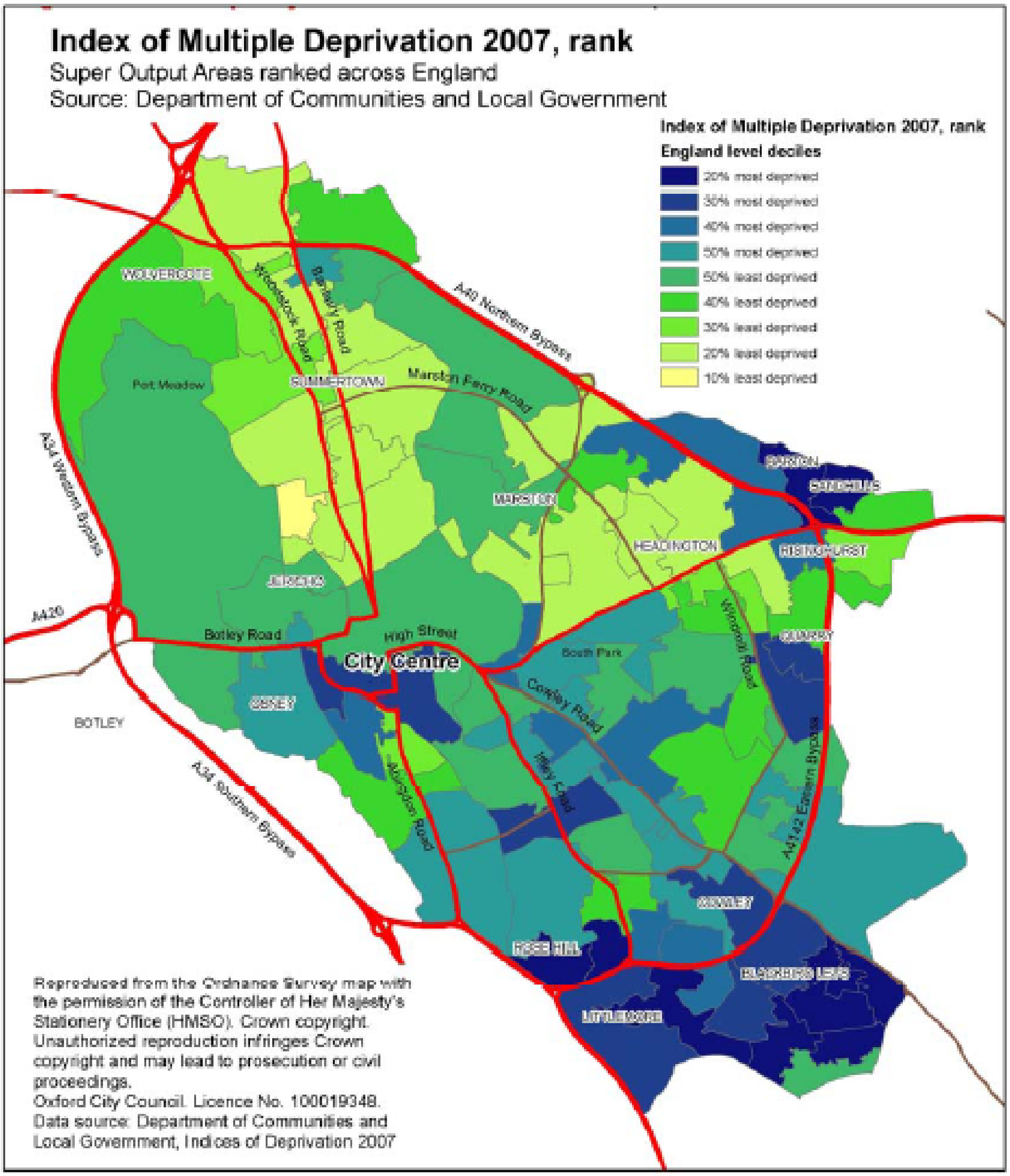
- Changes in the number of households affect the tax-base for Council Tax purposes, and hence the total amount which will be raised from this source

- The characteristics of both population and households have specific implications for the type and nature of many services provided by the Council

- All of the above factors affect the level of demand for, and use of, services provided by the Council.

Mapping disadvantage

6.9 Levels of disadvantage are important, as they will influence many of the Council's services either directly or indirectly, as well as being an influence on Council policies, which the following map shows.



Local Development Framework (local plan) and its implications

6.10 Between 2001 and 2016 we can expect around 6,500 more homes to be built within the City, housing in the region of 15,000 extra residents.

6.11 They will all expect to live in areas with high quality housing, good local community, sports, arts, health and education facilities and accessible public open space all linked to the City centre and employment areas by excellent public transport, cycleways and footpaths.

6.12 This will have implications in terms of additional Council Tax income and Formula Grant entitlement, but also in terms of significant additional costs reflected through the need to deliver additional services (e.g. the need to review refuse collection and recycling rounds).

6.13 By 2016 there will also be an additional 7,150 new homes within Vale of White Horse, 7,500 in South Oxfordshire, 9,350 in Cherwell and 6,800 in West Oxfordshire.

6.14 This will also have an impact on the City, as many of them will come in to Oxford to shop and for arts and culture facilities. This will result in additional cost pressures, though there will be no effect on the Council's entitlement to Government grant.

7. Treasury Strategy

7.1 The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). This Council adopted the Code of Practice on Treasury Management and as a result adopted a Treasury Management Policy statement (Executive Board 26th March 2002).

7.2 The Treasury Management Strategy for 2008/09 was adopted by the Executive Board on the 4th February 2008, a full version of this can be found at Appendix L.

Borrowing and Debt Strategy 2008/09 to 2010/11

7.3 The Council has £11.3 million of debt at 1st April 2007, all of it held at fixed rates, with varying lengths of time before maturity. The debt is wholly related to Housing with the interest met through the Housing Revenue Account subsidy mechanism. Restructuring and premature repayment of the debt have been considered, however, neither option offers any advantage because any reduction in interest payable would result in an equivalent reduction in subsidy and both options would incur significant costs that would not be met from subsidy.

7.4 The Council also has £2.3 million of long-term liabilities which is is an outstanding debt with South Oxfordshire District Council and is at a variable rate.

7.5 The Capital Financing Requirement (CFR) is the total outstanding capital expenditure that has not yet been paid for from either revenue or capital resources. It is essentially a measure of Council's underlying borrowing need. In Oxford City Council's case the CFR is currently £7.5m and our borrowing is £11.3m, indicating that there is no need to undertake any external borrowing in the short-term.

7.6 The Head of Finance as S151 Officer has delegated powers to determine the need for any future borrowing and the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks. It is likely that longer term fixed rates will be considered if borrowing levels remain relatively low.

7.7 There have recently been some changes to the PWLB borrowing arrangements, they have introduced a new set of separate 'Premature Repayment' rates. This will mean we will need to consider other alternatives to PWLB for any borrowing that we may wish to undertake. Market lenders continue to offer borrowing rates at significantly lower levels than the PWLB, and with some of the advantages reduced by PWLB, market loans are now becoming an increasingly more attractive borrowing proposition.

Investment Strategy 2008/09 to 2010/11

7.8 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure:

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed.
- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.

7.9 Expectations on shorter-term interest rates, on which investment decisions are based, show a likelihood of further downward move from the current level of 5%, with a potential low of 4.50%. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts. The Head of Finance as S151 Officer has delegated powers to undertake the most appropriate form of investments depending on the prevailing interest rates at the time, taking into account the risks.

7.10 The Treasury Management Strategy for 2008/09 is set out in Appendix L, this includes the prudential indicators and a copy of the full current counterparty list.

Head Part C: Budget Strategy and Process

8. Responsibilities

8.1 The of Finance is responsible for the Council's overall budget management processes. This includes:

- Ensuring that any rules/guidance around the budget process are in line with Council policy/relevant professional practice and applied fairly.
- That budget estimates/assumptions are robust and consistent, and take into account relevant factors.
- That minimum levels of balances are defined and maintained.
- A sensible timetable is agreed and stuck to.

8.2 In terms of the budget process, Executive Directors are responsible for:

- Overall delivery of the budgets in their areas of control.
- Identifying potential cost pressures/opportunities in their directorates, suggesting ways of making efficiency savings and/or potential areas for investment.
- The VfM in and of their Directorates.
- Advising Members on options for delivering budgets in their areas.
- Monitoring and assessing budgets/spending/income.

9. Budget Strategy

The Budget Process

9.1 Following the review in 2006, starting with the 2007-08 budget the first stage in the budget process for both the General Fund and the HRA is to calculate the budget “gap”. This figure becomes the savings target and detailed plans of how this is to be met are drawn up.

9.2 For 2009-10, the starting point is the 2008-09 budget approved by Council in February 2008 (and any subsequent amendments). Income and costs are then inflated using the most up to date forecasts for general inflation. Pay budgets are increased using the latest assumption for the pay award and allowing for the cost of increments.

9.3 Significant budgets where the rate of inflation is expected to be materially different from the general rate are modelled specifically – for the 2009-10 budget energy, fuel and concessionary fares are examples where exceptions to the general rates are applied. Similarly, exceptions to the standard rate of inflation are made for income lines where a regular annual increase cannot be assumed, for example Planning fees where rates are set by central government.

9.4 If services are able to achieve savings against the inflation applied to their budgets, either by managing costs down or increasing income, this will count towards their efficiency savings.

9.5 Major corporate pressures or changes are also considered in determining the total spending requirement. For 2009-10, the increased cost of the national concessionary fares scheme is the most significant additional pressure.

9.6 Assumptions about funding for the General Fund are then applied. The amount of Revenue Support Grant is known for 2009-10 and 2010-11 (years 2 and 3 of the three year settlement) with year on year increases of little over 1%. Council Tax increases of 4% per annum were approved in the 2008-09 budget; and the Council Tax base is reviewed.

9.7 The difference between the overall projected increases in cost and funding determine the budget savings target.

Savings Strategy

9.8 In previous years the overall savings target was allocated between Directorates based on controllable costs and individual services were tasked with developing efficiency proposals.

9.9 For 2009-10, the major corporate programmes for workforce reduction and specific major projects such as the review of recycling drive the efficiency programme and Heads of Service must first demonstrate how these will be achieved. Other local efficiency proposals will be brought forward alongside the major initiatives.

9.10 There are three strands to the drive to improve services and increase value for money.

- Efficiency
- Fundamental Review
- Transformation

9.11 Key efficiency measures are the workforce reduction where through de-tiering below Head of Service level the target is to reduce management posts by 1 in 5, and other posts by 1% annually; procurement savings of 1% per annum and the Invest to Save programme where 50% of savings will be reinvested into future projects

9.12 Fundamental service reviews are under way for Leisure and IT. The review of Park & Ride has led to the agreement to transfer this service to the County Council. The next priority service for review will be refuse collection.
.

9.13 Transformation supports the above initiatives and improves services to customers

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9.14 The next step is to carry out a prioritisation exercise – seprate from the efficiency initiatives. Services will be scored against the corporate plan priorities and a cross party panel of Members will review the output. This exercise will be facilitated by the use of Activity Based Costing techniques to map costs against outcomes at different levels of service provision. The budget savings target has been divided between efficiency programmes and cost reductions through prioritisation.

9.15 The HRA will follow the same process with specific calculations made for rent increases and assumptions about the level of subsidy to be repaid to central government.

10. Budget Savings Targets and Process

General Fund

10.1 The final savings target will be calculated after taking into account all inflation assumptions, and reviewing the budget base.

2009-10 Budget base

10.2 Savings agreed as part of the 2008-09 budget where the level of savings changes in 2009-10 and is included in the 2009-10 budget base will be confirmed to Heads of Service.

Inflation

10.3 General assumptions including inflation have been reviewed and these are set out in Appendix J.

10.4 Exceptions to a standard inflation include:

- Planning charges – where fee levels are set by central government.
- Concessionary fares –6% increase applied given fuel pressures and bus operators' price increases.
- Grants budget – no increase applied.
- Commercial property rents – no general increase applied, budget based on specific lease events.
- Fuel inflation (under review)
- Energy prices: under review, forecasts indicate up to 40% increase in tariffs in late 2008

Overview of Future Savings Required

10.5 Starting from the previous MTFS (updated in January) we have considered the additional headline economic pressures that now exist: These forecasts will be refined once detailed inflation modelling is complete.

	2009/10 £m	2010/11 £m	2011/12 £m
MTFS (Jan 2008)			
Cumulative savings required	1.2	2.3	3.6
Annual savings target	1.2	1.1	1.3
Additional Pressures			
Pay Inflation over 2½% assumed	0.35	0.35	0.35
Concessionary fares	0.5	0.5	0.5
Fuel & Energy	0.5	0.5	0.5
Repair backlog requirement	0.3	0.3	0.3
Council Tax Base	0.1	0.1	0.1
Sub Total	**1.75**	**1.75**	**1.75**
Revised Annual Savings Target	**2.95**	**2.85**	**3.05**

10.6 This does not provide any space for investing in Council plan priorities in addition to the current budget. It also assumes the current savings plans delivering £5.3 million by 2010-11are all achieved, in particular, the leisure saving of £700k from market testing.

Possible Savings	**2009/10 £m**	**2010/11 £m**	**2011/12 £m**
Management costs	0.60	0.65	0.75
Staff reductions front line 1%	0.20	0.25	0.30
Asset Rationalisation	0.1	0.1	0.1
Recycling	0.2	0.2	0.2
Park & Ride	0.15	0.15	0.15
Transformation	0.1	0.2	0.3
Homelessness reduced temporary accommodation	0.1	0.2	0.3
Procurement saving 1%	0.15	0.15	0.15
Housing benefit administration improvement	0.1	0.1	0.1
Sub Total	**1.7**	**2.0**	**2.35**
Annual Balance to fund from Prioritisation	**1.25**	**0.85**	**0.7**
Accumulated savings from Prioritisation needed	1.25	2.1	2.8
Accumulated Identified saving	1.7	2.0	2.35
Total Accumulated savings	2.95	4.1	5.15
As percentage service expenditure			18.1%

Value for Money

10.7 KPMG are currently reviewing our service costs and it is suggested that any service whose costs seem significantly over a level, which can be justified by the nature of the service specification or our location should be subject to market testing. The in-house service should be supported in delivery of improvement programme alongside the market testing exercise. These market testing exercises are required if the Council is to meet its statutory obligation to demonstrate best value and will act as an incentive to services to tackle the underlying factors which make them uncompetitive. The aim would be to test a significant service area each year.

Prioritisation

10.8 To find around £2.8m extra savings it will be important that members review every part of the Council's operation and test whether continuing with this service at this level is a priority. It is proposed that we undertake a fundamental service review on an Activity Based Costing approach.

10.9 This involves producing for members an Activity Costing Data sheet for services we provide. It is important that this covers every direct service line and identifies:

- The service
- Service outcomes
- Contribution to LAA targets, Community strategy, Corporate plan
- Costs analyzed subjectively (e.g. Employees, premises etc)
- Policy constraints
- Impact of elimination of service
- Impact of reduction
- Impact of charging changes
- Pressure to improve
- Risks to the Council involved in reduction

10.10 Each Service Head would present to an all party panel these data sheets and it is suggested that to stimulate debate the service is asked to recommend the steps they would take to reduce costs by deprioritising some activities by 10%, 20%, 50% across their whole area.

10.11 It would be important that the same panel does all the work to ensure consistency. It is proposed that five evening meetings are arranged, with one meeting per Directorate plus set up and concluding meetings. The discussions of support services would examine the core unavoidable costs and look at delivery models for the rest.

10.12 Review Timetable

Sept	Medium-term Financial Strategy sets savings targets
Sept	Activity based costing data sheets prepared
Sept/ Oct	5 evening Cross Party review sessions
Oct CEB	Budget gap refined for 2009-10.
Nov CEB	Indicative budget. Council agrees any service changes arising from the ABC process Review Corporate plan priorities & Service plans
Dec	Detailed business cases & Project plans for service reductions & savings
Dec/ Jan	Corporate plan, Service plans & Budget all completed in draft for approval by Council in February

Significant Risks and Uncertainties

10.13 A material risk to the budget is uncertainty around the ultimate cost of implementing single status. Although budget provision has been made, until pay modelling has been completed and negotiations concluded, final costs will not be known. The national concessionary fares scheme also imposes costs on the Council, the full extent of which remains uncertain until the scheme has been operating for long enough for usage trends to be confirmed.

HOUSING REVENUE ACCOUNT

10.14 The final savings target will be calculated after taking into account all inflation assumptions, and reviewing the budget base.
Three year projections for the HRA have been prepared, under the same inflation assumptions but taking account of specific factors such as subsidy and the HRA target rent constraints. Materials inflation of 6% has been included.

10.15 The budget set in February 2008 for 2009-10 showed a surplus of £830k with a savings target of £343k. For 2010-11 the saving requirement was £1,221k. These have been updated and 2011-12 added.

10.16 A significant uncertainty that remains in setting the HRA savings target will be the level of Housing Subsidy that will be payable to government. The subsidy determination for 2008-09 was worse than expected and is unlikely to improve for the next couple of years. The determination for 2009-10 will not be known until December 2008 and may differ significantly to the figures we have estimated, impacting on the level of savings required if the £830k surplus is to be achieved. The level of HRA surplus impacts directly on the funding for Decent Homes capital expenditure.

	2009/10 £m	**2010/11 £m**	**2011/12 £m**
Budget Target	-0.83	-0.83	-0.83
Base Budget	0.36	-0.88	-0.83
Inflation	0.85	0.94	0.99
Non-Standard Inflation	0.34	0.22	0.23
Dwelling Rent & Subsidy	-1.79	0.07	-0.09
Sub Total	**-0.24**	**0.35**	**0.30**
Revised Annual Savings Target	**0.59**	**1.18**	**1.13**

Part D: Revenue

11. External Funding Projections - Revenue

11.1 A key factor for both the General Fund and Housing Revenue Account is the external funds we receive. Making longer-term assessments of external funding have previously been quite difficult because English Local Authorities only knew what grant they would receive for the year ahead.

11.2 The 2007 grant settlement gave us a three-year provisional settlement. The levels of overall increase awarded to Oxford were 2.15% for 2008-09, 1.25% for 2009-10 and 1.18% for 2010-11. Although in line with our assumptions for 2008-09, the award is considerably less than the 2% uplift for years 2 and 3 previously assumed. The LGA has stated that CRS07 is one of the worst settlements for local government.

Formula grant distributions

11.3 The current grant distribution model was introduced in December 2002. The main impact for Oxford was it coincided with a major fall in reported resident population.

11.4 The 2008-9 settlement continued the process of reducing the proportion of funding distributed in the form of ring-fenced grants.

11.5 The 2008-9 formula grant included statements that:

- 37 specific grants and the new regeneration fund have been pooled to form the new area based grant
- Costs from the new national concessionary fares scheme will be funded by a specific grant from the Department for Transport.

11.6 The formula grant continues to include funding for the expansion to the concessionary fares scheme that was introduced in 2006.

11.7 The floor adjustment in the grant system has been reduced over the period 2008/09 to 2010/11. The floors for district councils have dropped from 2.7% in 2007/08 to 1% in 2008/09 and 0.5% in 2009/10 and 2010/11.

Concessionary Fares

11.8 The special grant for Concessionary Fares for the national scheme was also announced on 6th December 2007. From 1st April 2008 the Concessionary Fare scheme has been extended to cover national travel. This means that Oxford City Council has to reimburse the bus companies for journeys from pass holders from any authority using a bus service that starts within Oxford City to anywhere in the country (the scheme excludes cross country long distance coach travel). The final costs of such a scheme will not be known until it has been in operation for several months and data has been returned, but the Council has taken advice on the matter in estimating costs for the budget. One local factor of particular concern is the Park & Ride services where Oxford will be paying for all concessionary journeys out of Oxford, and a user survey was undertaken to assess potential uptake.

11.9. Having consulted on a range of options for reimbursement, DfT announced the award of a grant based on a variant of Option 4. This was the least favourable for Oxford, amounting to just over £0.8m per annum, some £0.5m less than alternative options could have awarded. Given the growth in demand indicated already in 2008-09 we are working closely with other local authorities with a view to lobbying central government on this issue.

Specific grants

11.10 The Government indicated that 2007-8 would be the last year of Planning Delivery Grant and that future funding for the planning and housing services will take the form of a Housing and Planning Delivery Grant. This was set out as part of the 2007 Comprehensive Spending Review. This The Government, having consulting Local Authorities on the allocation method, has yet to announce the 2008/09 grant and criteria for assessment over the next two years.

11.11 As in previous years, although not formally ring-fenced, the custom is that these funds will be spent on the associated services.

New Growth Points

11.12 In October 2006, Housing Minister Yvette Cooper named the City as one of 29 towns and cities confirmed as New Growth Points, with the potential to deliver up to 100,000 extra new homes over the next ten years. 5,692 new homes will be built in Oxford.

11.13 New Growth Points will deliver a substantial number of new homes to help first time buyers onto the property ladder and enable towns and cities to grow their economies by creating new jobs and encouraging business development.

11.14 The successful bids put forward by over 70 Local Authorities with high housing demand contain a wide regional spread from Plymouth to Lincoln and include major cities like Derby, Leicester, Nottingham, Birmingham and Bristol as well as large and small towns like Swindon, Reading and Ipswich.

11.15 These areas will share in £40m start up funding to support infrastructure, unlock sites for new housing and to assess and mitigate environmental impacts. This will make them more attractive for business investment and help young people who want to stay in their home town to find a home.

11.16 The initiative is a crucial part of delivering an increase in house building in England to 200,000 per year by 2016 to provide the new homes that are needed for the next generation in response to economist Kate Barker's review of housing supply.

11.17 In support of Oxford's growth ambitions the Government is allocating around £1.16m in 2007/08 from the first year's funding pot, subject to detailed negotiation and appraisal.

11.18 Across Oxford the council will be working to achieve:

- the development of houses and flats to suit the needs of smaller households
- 50 per cent affordable housing on sites of 10 houses or more
- extensive contributions from developers to ensure the assimilation of new developments into local areas which are supported by appropriate services and infrastructure
- high standards of sustainable development, including the inclusion of 20 per cent on-site renewable energy

11.19 The New Growth Points Fund will help the Council to regenerate the West End of the City. This will create more affordable and sustainable homes for those young people who choose to live and work here and contribute to overall prosperity and the City's vitality.

11.20 New Growth Points will help to concentrate future growth at existing urban centres and presents a significant opportunity for the new communities to become exemplars of sustainability by pioneering eco-development and encapsulating high design standards in parallel with meeting the housing needs of local communities.

11.21 The growth ambitions submitted have all been appraised by Government to ensure they are sustainable, acceptable environmentally and realistic in terms of infrastructure. Levels and locations of growth are subject to full public consultation, testing, and examination through local and regional planning processes.

11.22 In signing up to a new partnership for growth with the Government, Local Authorities will be subject to some conditions to ensure there is effective water supply and flood mitigation, and that the impact of potential development on infrastructure is fully understood.

11.23 On 28th April 2008 the Government made the Growth Fund Determination for 08/09 and has awarded the West End Partnership £1.9m in total (£0.2m revenue and £1.7m capital).

11.24 It has also given an indicative allocation of a further £3.7m capital and £0.3 revenue in total for the following two years for 2009/10 – 2010/11.

11.25 The financial implications of this new external funding have not yet been incorporated into medium term forecasts.

Capping

11.26 The Comprehensive Spending Review 2007 stated that Council Tax increases should be “well below” 5% in each of the next three years.

Balance of Funding Review

11.27 The Government is carrying out a review of the future level of external support for Local Government. This could impact on future funding.

Council Tax Assumptions

11.28 The Council’s Council Tax income is based on five factors:

- The balance of council tax bands of the different properties
- The number of taxable properties in the City
- The number of exemptions and discounts we grant
- The level of tax we set
- The eventual collection rate.

11.29 The Council has only limited influence over the first two of these five factors. This influence is though the Council’s role as facilitator of public housing and as a Planning authority steering the development of the private sector housing stock.

11.30 The grant system also takes account of the numbers and property bandings when calculating Oxford’s entitlement to Formula Grant.

11.31 Oxford can influence the last three factors. Whilst the rules about discounts and exemptions are set nationally, we do have some discretion in terms of the amount level of discounts offered for second and empty homes. The City Council exercised its discretion in the 2004-5 budget-setting round and this has been carried forward into subsequent years.

11.32 The Council has also taken a more active role in ensuring Council Tax discounts and exemptions are only paid to those entitled to them.

11.33 The Council can raise extra income by increasing Council Tax, subject to National capping rules. A 4% increase was agreed for 2008-09. This rate of increase has been assumed for the next three years.

11.34 2007-08 saw a considerable slowing down in the growth in our number of dwellings. Also (primarily as a result of a Trevor MacDonald TV documentary) we have received a large number of banding reductions, some of which go back to April 1993. These factors resulted in our tax base for 2008/09 remaining at the 2007/08 calculation. Early indications in 2008/09 show no sign of any real increase in our dwellings numbers. With more notifications of banding reductions currently being received, our tax base is predicted to grow very slowly – if at all – over the next few years. The table below shows a 0.5% annual increase in the tax base and a 4% annual increase in the basic amount of Band D Council Tax for the forthcoming three years.

Oxford City Council tax base (Band-D equivalents)

Year	**Tax base**	**Band D Average Council Tax**	**Amount raised**
2003-4	41,779	£207.64	£8,674,992
2004-5	42,417	£215.95	£9,159,951
2005-6	43,996	£224.54	£9,878,862
2006-7	45,348	£233.52	£10,589,738
2007-8	46,180	£240.53	£11,107,675
2008-9	46,180	£250.15	£11,551,927
2009-10 (est)	46,411	£260.16	£12,074,286
2010-11 (est)	46,643	£270.57	£12,620,197
2011-12 (est)	46,876	£281.39	£13,190,438

11.35 Comparing Oxford's data with all English Districts Councils our average Band D Council Tax for 2008-9 of £250.15 is the 10th highest.

Local Authority Business Grant Incentives (LABGI)

11.36 The LABGI scheme is a Government initiative that aims to "reward" Local Authorities that achieve significant growth in the business sector in their area.

11.37 Growth is measured in terms of the increase in each Authority's rateable value (determined by the Valuation Office Agency) during a *calendar* year.

11.38 In 2005 (Year 1 of the initial 3-year scheme) Oxford's rateable value benefited from several large new assessments. These included:

- Oxfam premises on the Business Park
- The Manor Hospital in Headington
- Several developments on Alex Issigonis Way - Manches LLP, Blackwells and Software Imaging Ltd.

11.39 These developments increased Oxford's aggregate rateable by over £4m. As a two tier Authority area, the LABGI growth is shared between the City and County. The City's share of the 2005 LABGI entitlement worked out at £613,056.52.

11.40 In 2006 there were fewer new developments, several major deletions from the business rate register, and an increasing number of appeals where ratepayers were successful in obtaining reductions in their rating assessments. As a result the City rateable value dropped by over £1.5m during 2006.

11.41 Despite this overall decrease in our rateable value during 2006, we received an initial Year 2 reward of £587,561. This was due partly to our increase in rateable value achieved during 2005 being rolled forward into 2006, and also because various types of Valuation Officer amendments (for example successful appeals) are disregarded for LABGI purposes.

11.42 We also received a further £185,385 following the court ruling in the judicial review proceedings brought against the DCLG by Corby and Slough Borough Councils. This was an additional grant payment to reward Authorities for all increases in Rateable Value (for example following an extension to a premises).

11.43 In April 2008 the DCLG finally announced details of LABGI allocations per individual Authorities for the 3rd and final year (calendar year 2007) of the original LABGI scheme – and in addition gave details of proposed additional payments (if applicable) for years 1 and 2 of the scheme.

11.44 The DCLG decided to make additional payments for Years 1 and 2 calculated against **ALL** Valuation Office Agency rateable value changes that had not previously been used and which recorded an increase in Rateable Value. Such circumstances include cases where a property is no longer exempt from business rates, or when a property is moved into the NDR list. In addition the DCLG carried forward this methodology into the Year 3 calculation process. Under this method, Oxford has been awarded an additional **£119,302** for Year 2, and **£700,433** for Year 3. Authorities were given until 16 May 2008 to comment on the methodology. 28 responses were received by the DCLG who were satisfied that the published methodology had been correctly applied. Oxford's awards as above were not amended and are expected to be received in July 2008.

11.45 Regarding the new LABGI scheme, in October 2007 the DCLG published a consultation paper asking councils to tell what the core features of a reformed LABGI scheme should be. Underpinning local authorities' responses were two words – simplicity and predictability. Under CSR07 only £150m has been made available over the next three years. That sum is disappointing as it is intended that a reformed LABGI scheme is to become a full and permanent part of the local government finance system. The Government intends that LABGI will *"provide local authorities with the incentive and confidence to plan for the economic well-being of their area."* It is expected that the DCLG will publish a consultation paper containing firm proposals before the summer 2008 recess.

12. Revenue Spending Pressures and Opportunities

General (applying to more than one fund)

Employers pension fund contributions

12.1 The City Council is part of the Oxfordshire Pensions Fund, which is administered by the County Council. The rate of contribution is set following a three yearly revaluation of the fund by the appointed actuary.

12.2 The next review of contributions will be in March 2011. No assumptions have been made regarding a further potential increase in employers' contributions at this stage.

Efficiency Tasks

12.3 CSR confirmed ambitious targets for efficiency savings, 3% per year across the whole of the public sector.

12.4 Local Authorities are expected to deliver these savings through:

- Increased rationalization of Local Authority back office functions and better staff productivity
- Smarter procurement – 1% of the 3% savings to be achieved through procurement.
- Better asset management.

12.5 Government departments have committed to work with Local Government to deliver these efficiencies. The Regional Centres of Procurement Excellence are seen as having a significant role to share and promote best practice.

12.6 Budget 2007 has outlined a target of 3% cashable efficiencies from 2008-9. This is a step change from previous efficiency requirements in that all efficiencies must be cashable i.e. release resources for spending elsewhere.

12.7 The Council has always followed this approach when setting the budget. The continuing pattern of wage inflation outstripping increases in funding means that the Council has had to find either cashable efficiency savings or increased income to maintain existing service levels.

12.8 Efficiency savings may require investment. Through establishing an Invest to Save fund and transformation projects, major efficiencies can be planned for future years.

12.9 The Value for Money and Efficiency Action plan was approved by City

Executive Board in June 2008 and is reproduced in full at Appendix A.

Single status/job evaluation -

12.10 The Council (along with other Councils) is carrying out a review of pay between male and female staff. The three year budget includes £700,000 a year to pay for the cost implications of “single status”.

12.11 The reason this exercise can lead to higher costs is because:

- Individuals who are deemed to have been underpaid will get a pay increase.
- Financial statements resulting from equal pay claims.
- The Council is not proposing to backdate any pay increases, this may be subject to negotiation.
- Individuals who are deemed to have been overpaid will not have their pay reduced immediately. Instead for a time (may be up to 5 years) they will continue to get their old wage. The longer the period people get “pay protection” the higher the costs to the Council.

12.12 Pay modelling allows the full costs to be evaluated in detail and forms the basis for negotiation of a final pay structure to be implemented from early 2009.

12.13 Implementation of single status includes the administration’s commitment to “Living Wage” conditions, which includes a minimum wage of £7 per hour from 2009.

Procurement and process improvements

12.14 The Council has an established corporate procurement team responsible for managing all tender processes over £100k and this is underpinned by the Constitution and corporate procurement strategy. The corporate team are now generating £1 million a year through financial savings made in ongoing contracts and supported the others by opening up contracts to be used by all the Oxfordshire councils. The savings have accrued to the individual Services, rather than the procurement team.

12.15 Procurement processes have been substantially simplified, through the implementation of monthly consolidated invoices and corporate purchase cards. This has resulted in simpler invoice payment systems, which has reduced the cost of paying bills, as well as allowing us to pay creditors much more quickly.

12.16 A business case has been approved for implementing e-procurement and plans to implement either the Agresso e-purchasing module or another option during 2008/9 are being prepared.

General Fund – City Services

Cross Oxfordshire waste collection contract

12.17 Waste collection and recycling is the responsibility of individual District Councils. Oxford City Council's 2008-9 domestic and trade refuse collection budget stands at £3.7 million (offset by some £1.6 million of trade waste income). A further £1.9 million is spent on recycling.

12.18 Two Oxfordshire District Councils are currently exploring the potential for a joint refuse collection contract (not to be confused with the County Wide Oxfordshire Waste Strategy). The contract also names all other OWP authorities as potential participants should they wish to join at a later date. The Official Journal European Union notice was issued at the beginning of November and it is anticipated that the contract will come into operation in 2009.

Impact of Landfill Allowance Trading Scheme (LATs)

12.19 The scheme has been introduced by the Government in response to EU legislation designed to reduce the amount of waste going to landfill.

12.20 The effects of these changes could be very significant. The Landfill Allowance Trading Scheme (LATs) affects all authorities in the country. If the Council can keep the amount of biodegradable waste it generates below its targeted allowance (worked out on the basis of the number of households) it will receive a "credit". However, if the Council exceeds the target it will be fined for every additional tonne of waste sent to landfill.

12.21 The current tonnages and recycling percentage achieved by the council's alternate week collection scheme have achieved a favourable position for the City Council in that no fines are likely to be incurred and some credit may be generated. It is anticipated that the target will be achieved in 2009/10 and that any fines would only become a reality in 2010/11. The major risk around LATs for the City Council is due to a commercial waste allowance not being included in the City's target. To mitigate this a push for commercial recycling has commenced which should reduce the risk of potential fines as highlighted above. The Council along with others is also pushing for a change in the rules as the implications around commercial waste were not known until after targets for Oxfordshire authorities were set.

12.22 To reduce the biodegradable waste going to landfill, the County Council is providing a food waste and garden waste processing facility in April 2009. The City Council is reviewing its collection policies and procedures to maximise the impact of this opportunity.

Leisure Review

12.23 The City Council commenced a market testing exercise in April 2008. It is intended that by the end of 2008, the Council will have determined information on both our improved in-house provision and offers from alternative not-for-profit organisations.

12.24 Significant revenue savings and improvements to services are anticipated. However, the savings identified in the medium term financial plan at the end of 2008/09 are unlikely to be achieved in the time frame originally set. New estimates will be included in the budget for 2009/10 as the market testing exercise progresses.

12.25 It is also anticipated that the review will flush out and provide a solution to the repair and maintenance back log and facilities strategy in the city.

Play Area Refurbishment

12.26 One area of major building of repairs and maintenance is play areas. There are 97 across the city. Many have been modernised and are in a good, safe condition to provide good play stimulation. However, there is also a large number which have not received attention for a long time.

12.27 This year's budget included additional funds for play area refurbishment. Prudential Borrowing is being explored as a means of bringing forward a major scheme of refurbishment paying off the loan over 15 years with the revenue base budget.

Transfer of Park & Ride services

12.28 In 2007-08, a soft market testing exercise was carried out on car park operations to provide an insight into how efficiencies could be achieved. Subsequently agreement has been agreed to transfer the operation of the Council's three Park & Ride services to Oxfordshire County Council on 1st October 2008. This will enable a more coherent service to be provided across the city and will achieve the objective of costs being borne by all the taxpayers of the county rather than just the city. Efficiency gains will also be made for both organisations.

General Fund – City Regeneration

Westgate shopping development

12.29 The Westgate Shopping Development represents a major redevelopment opportunity in the Oxford's City Centre. It would involve a significant extension to the new shopping area and rebuilt multi-storey car park which is a significant liability to the City Council in terms of future repairs.

12.30 Planning permission has been granted for the development, and the property deal has been concluded which protects the Council's financial position. The Compulsory Purchase Inquiry has now been successfully concluded and the Council and developers are now working through a number of outstanding pre-conditions contained in the legal agreement to allow the development to proceed. Current time scales estimate the redevelopment being completed by Autumn 2011 or Spring 2012.

12.31 The City Council currently has a share of the income from the Westgate shopping centre, which will be enhanced on completion of the redevelopment. The agreement also offers the potential for a share in profits of the completed centre, through the amount (if any) of a profit share are still highly uncertain and have not been built into any budget assumptions.

St Aldate's Building

12.32 The Council leases offices at St. Aldate's Chambers. These buildings are in relatively poor condition, and will need a major refurbishment (the costs of which are not included within the property maintenance backlog) at some point soon if the Council wants to continue occupation for the remainder of its 28 year lease.

12.33 Every fourteen years the landlord of St. Aldate's Chambers (CEREP) is entitled to review the rent we pay in light of market conditions. We can also be required to put the premises in good repair. The next rent review is due in March 2009. The rent review could potentially increase the current rent of £225,000 per annum by between £200,000 to £250,000 per annum and this increase has been included in the 3 year forecast.

12.34 A developer who has acquired most of the property to enable them to complete a mixed use development in the area SAC site, has approached the Council to discuss whether we could vacate SAC providing suitable alternative accommodation was made available. The discussions with the developer have so far have focused on the appropriate relocation of staff currently located In SAC at a nil/modest cost.

12.35 Should the development proceed, it is possible we may still face an increased rental greater than the increase projected for SAC, in any replacement offices. However, the project team working on the possible relocation have identified as one of their priorities the objective of minimising or eliminating any additional rent increases alongside improving the working conditions for the staff and the public access to Customer Services.

HRA

Housing Subsidy

12.36 There is still uncertainty around the national Housing Subsidy. The Housing Subsidy Determination for 2008-09 was significantly worse than expected, and didn't compensate Local Authorities for restrictions placed on rent increases for the past two years. Although the Department for Communities and Local Government (DCLG) have promised that authorities will be compensated in 2009/10, the current subsidy system means that there will be pressure on HRA budgets for the foreseeable future. The DCLG are undertaking a review of the subsidy system. This is due to conclude and report in April 2009 with any changes implemented from 2010/11. Until clarification of the future of the subsidy system becomes clearer, which may in the longer term include it being replaced; medium and longer term planning will be extremely uncertain. If the subsidy determination continues to result in increasing amounts of subsidy being paid into the national pool the pressure on HRA revenue budgets will continue and may mean that the revenue contribution towards funding the decent homes capital works will not be possible and further asset sales would be required.

Single Status

12.37 The same uncertainties that apply to the General fund apply to the HRA. The HRA has an ongoing budget provision of £215k.

Southfield Park

12.38 The lease for Southfield Park was due for renewal in 2005/06. Negotiations with the landowner have not resulted in agreement and will be going to a tribunal. Provision has been made for £112k p.a. in future year budgets and for any backdating. The tribunal may decide that the annual rent should be more than the provision made.

Capital Programme Funding

12.39 Members approved the HRA Stock, Decent Homes Strategy in 2007. This gives direction for immediate, medium and longer term future of the stock. For the sheltered schemes this involves selling four properties and using the proceeds to fund decent homes and re-modelling works on the remaining blocks. For the tower blocks all five blocks will be brought up to decent homes standard by 31 December 2010 and a specialist consultant will be used to appraise future options. This will include producing a report setting out a realistic timescale and financial profile. The Council owns a number of ‘Non-traditional’ properties that have known defects. These are currently being improved or replaced to ensure that the Decent Homes Standard is achieved.

12.40 Funding the HRA capital programme, most of which relates to decent homes, is dependant upon a number of sources of finance. This includes revenue contributions, asset disposal (capital receipts) and major repairs allowance. If enough funding is not raised from capital receipts the HRA would need to look at prudential borrowing, funding the repayments of which could mean reducing service provision.

Housing and Regeneration Bill

12.41 The recently announced Housing and Regeneration Bill includes measures that are intended to remove barriers to councils building their own social housing. There is also a provision that will allow some Councils to opt out of the HRA subsidy system. The potential for these proposals to improve the Council's position are being explored.

13. Revenue Forecasts and Reserves

General Factors

13.1 The major assumptions on which the revenue forecasts are based are summarised in Appendix M.

13.2 These are based on the analysis in previous sections of the strategy.

13.3 A number of areas of uncertainty still remain, where the exact financial impact on the Council cannot yet be accurately determined. These items are shown in Appendix I, and must be borne in mind when setting the financial strategy. These uncertainties have been taken into account in the risk assessment underpinning the recommended level of balances.

General Fund

13.4 The Council was able to set a balanced budget in 2008/09 that included savings of £3.9 million, £0.3milion of ongoing spending and £0.3 million of one-off initiatives. An Invest to Save fund of £800k over three years was also created, for projects where investing in improvements will reduce costs in future years.

13.5 The final budget was set at Council on 18th February. The key elements were:

- General Fund net spending set at £28.4 million
- The Council Tax for Oxford City Council was set at £250.15 for Band D, an increase of 4%

13.6 The savings have, as in previous years, been subject to all party Scrutiny reviews. Each proposal has a risk assessment and a detailed action plan for delivery. Delivery of the savings proposals forms part of the targets for each Service as set out in its Annual Transformation Plan. Progress on achievement of the savings will, as for 2007-08, be monitored monthly using a “traffic light” system to indicate status. By the start of the financial year, actions to secure £1.6 million of the savings had already been completed.

13.7 A summary of the General Fund budget for 2008-09 is included as Appendix R.

13.8 Since the budget was set the LABGI (Local Authority Business Growth Incentive) determination for 2007 has been announced together with a further supplementary award for 2006. We are due to receive £820k in total. As part of the budget setting process, Executive Board approved the allocation of the next tranche of one-off funding received to reinstate the budget risk contingency for high risk savings, up to the value of 100% of the high risk savings.

13.9 The outturn report for 2007-08 showed that a combination of strict financial control and one-off funds from windfalls and the release of provisions left balances considerably higher than the minimum level. On 30 June 2008, Council approved carryforwards of project underspends of £293k, and also allocated the rest of the available funding as £1m for services and other corporate priorities, the remainder (£0.9m) for invest to save and transformation projects. All new commitments have been restricted to one-off projects as ongoing commitments would increase the budget gap in future years.

13.10 Specific reserves were created to fund systemic resourcing issues. £250k was set aside to fund the essential works on IT infrastructure and system upgrade and replacement. A further £375k was earmarked for reducing the repairs and maintenance backlog.

13.11 Details of the calculation of the budget savings target for 2009-10 is explained in Section 10. Budgets have been modelled for three years using the assumptions in Appendix J.

Housing Revenue Account

13.12 The HRA had the target to achieve a revenue surplus of £830k to contribute to capital spending, as part of meeting the Decent Homes standard by 2010.

13.13 To provide revenue contributions towards Decent Homes capital expenditure the HRA revenue budget needs to be in surplus. On this basis the HRA has to find cumulative savings of £3.0m over the next three years. There is no provision for any policy initiatives within the figures. Any proposals would need to be met from further savings.

13.14 The Decent Homes target date is December 2010. Capital expenditure will need to continue to maintain the decency level beyond 2010. It is estimated that this will be between £6.5m and £7.0m per year. As the Major Repairs Allowance is only around £5m, a revenue contribution towards capital expenditure will be required in 2011-12 and beyond. .

13.15 It is unlikely that revenue surpluses will be enough to meet the capital funding shortfall, unless there are cuts in services provided. Further funding from the sale of assets will therefore be required to fund the future HRA capital programme.

<u>Recommendation on Level of Reserves</u>

13.16 The minimum level of reserves agreed in previous years has been:

£3 million for General Fund
£2 million for HRA

13.17 These reserves are the only cash balances the Council holds to fund unexpected increases in expenditure. If the Council incurred additional costs exceeding the level of reserves, the Council would have to reduce expenditure or cease to provide some services.

13.18 The Council undertakes the CIPFA approved analysis to ascertain whether balances are sufficient or not. This analysis looks at items like the effectiveness of monitoring arrangements. This is summarised in Appendix H.

13.19 The list of Risks and Opportunities shown in Appendix G highlights a number of areas that the Council needs to be aware of and which may cause additional expenditure. The acknowledgement of these risks is not new and the Council has been aware of these for many years.

13.20 Recommendations on Council reserves for 2009-10 onwards will be made to Council as part of the final budget report. Again an assessment will be undertaken to arrive at this figure.

Part E: Capital

14. Capital Programme Pressures

14.1 Although the Council runs one capital programme, the programme is split into two – the HRA programme covers predominantly Decent Homes whilst the General Fund programme covers the remainder of the Council's assets. There are two different funding approaches. The HRA relies on asset disposals of surplus properties resulting from implementation of stock strategies and reviews. The General fund is moving away from asset disposals to the use of prudential borrowing where a robust business case exists. The Council continues to seek external funding where possible.

General Fund

14.2 The key aim of the capital programme is to invest in the assets that deliver the Council's services and aims and objectives. The major part of this is to tackle the buildings backlog that has built up over a number of years of reduced investment. Current estimates of the building backlog are circa £9.5m which is rising by approx £0.75 per annum. The current capital programme earmarks approx £4.4m over three years for Building Improvements.

14.3 In addition there is substantial investment required in Leisure facilities. The Leisure Board review will help prioritise those facilities that need urgent investment and suggest remodelling where necessary. £900k has been allocated for works to keep the Leisure centres operational over the next 3 years. Key projects for the Leisure Board are reviewing the Temple Cowley facility and planning for the redevelopment of the West End of Oxford from which the Ice Rink could be displaced. The Council would look to fund any new facility by rationalising current facilities and prudential borrowing funded by a revenue income stream.

14.4 The Council wishes to move more towards prudential borrowing instead of relying on asset disposals. Asset disposals are not sustainable long term. If the Council pursues asset disposals, delivery will become more risky and the disposals will impact more on revenue streams. The Council will instead concentrate more on achieving better returns from the assets it holds.

14.5 The predicted asset disposals give sufficient resources to fund the current approved capital programme. The Council's Corporate Plan has ambitions for capital investment for which other funding sources must be found. In the short-term, both the corporate targets for increasing domestic recycling and refurbishing play areas can be met through prudential borrowing. Service managers have developed action plans to achieve these aims and these plans are waiting for formal approval through City Executive Board before inclusion in the capital programme. City Executive Board have recently allocated one-off revenue funding of £900k for transformation projects. Some of this will fund capital projects in particular the CRM system.

14.6 Following an interim review of Corporate Boards, the Capital Programme will now be managed through the Strategy & Resources Board. This Board will make recommendations in respect of projects to be held back or accelerated as funding and progress are reviewed. The Monitoring Board will review progress on scheme spend and delivery.

14.7 The Council continues to fund Area Committee capital projects and the authority's contribution to Private Housing Grants through asset disposals. The effectiveness of Area Committee capital budgets is being reviewed during the later part of 2008 with the possibility of replacing the Capital budget with an increased revenue budget.

Housing Revenue Account

HRA – Funding

14.8 The overall funding shortfall for the HRA capital programme is £1.2m. The key strategy for funding the HRA shortfall is the identification and sale of surplus property. Sales of surplus hostels (Houses in Multi Occupation) have provided £4.4m, with a further £3.7m from other sales. A further £12.1m of other asset disposal has been approved.

14.9 The level of additional disposals required is determinate on longer-term strategic decisions on the tower blocks and 'Non-traditional' properties.

14.10 The concerns with timing of capital receipts and expenditure applies equally to the HRA and care will need to be taken that spend does not outpace funding.

14.11 The HRA is expected to fund capital expenditure of £0.8m from the revenue account. The revenue budget shown in the revenue section of the MTFS requires an ongoing surplus of £0.8m. Any reduction in funding from revenue will mean further proceeds will be required from asset disposals.

14.12 The HRA Stock, Decent Homes Strategy gives direction for the future make-up of the Council HRA housing stock and the funding levels required. The strategy will enable the Council to meet Decent Homes requirements in the timescale set by government (though this may be revised with the agreement of GOSE for tower blocks, depending on the appraisal of their future options). It is not yet known whether there will be a further government initiative to continue improvements in Council Housing after 2010-11 or the levels of funding that will be provided through Housing Subsidy.

HRA - spend

14.13 The capital program includes estimated costs for decency and remodelling of the Sheltered Accommodation. The majority of the proposed expenditure relates to decent homes and is based on the initial data from Savilles collected in 2003. This estimated costs by cloning similar housing types. The HRA are undertaking an on-going survey of all houses which is informing the spend figures included in the programme for 2008/09 to 2010/11.

14.14 The key assumption in the spend figures is that the capital programme excludes major structural works on the tower blocks. Should the long-term decision be to undertake this work there may be a delay in meeting the decent homes target. From a value for money perspective, it is prudent to deal with the longer-term strategy sooner rather than delay.

14.15 The decisions will determine the level of funding required. The Government of the South East (GOSE) office has indicated that an extension to the decent homes deadline for tower blocks is feasible, provided there is a clear longer-term strategy and an approved plan for financing the expenditure.

15. Capital Plan Forecast

CAPITAL PLAN - GENERAL FUND

Programme / Scheme	2008-09 Budget	2009/10 Budget	2010/11 Budget	2011/12 Budget	2012/13 Budget	2013/14 Budget	TOTAL future year Budgets
	£	£	£	£	£	£	£
Capital Plan - Summary Of Categories							
Core General Fund							
	6,197,154	2,240,000	2,346,500	0	0	0	10,783,654
Unfunded Maintenance backlog	250,000	1,953,975	4,965,603	2,101,290	1,404,070	712,760	11,387,698
Programme	6,447,154	4,193,975	7,312,103	2,101,290	1,404,070	712,760	22,171,352
Project	2,404,112	2,046,581	1,000,000	0	0	0	5,450,693
Total Core General Fund	8,851,266	6,240,556	8,312,103	2,101,290	1,404,070	712,760	27,622,045
Non Core General Fund							
Area Committee Projects	281,972	200,000	250,000	0	0	0	731,972
Developer Contribution Projects	3,701,841	14,000	0	0	0	0	3,715,841
Total General Fund Capital Plan	12,835,079	6,454,556	8,562,103	2,101,290	1,404,070	712,760	32,069,859
Capital Funding Availability							
Capital Receipts	3,594,506	2,946,581	1,825,000	0	0	0	
Developer Contribution	3,701,841	14,000	0	0	0	0	
DRF GF	1,750,818	0	0	0	0	0	
Government Funding	403,181	200,000	200,000	0	0	0	
Supported Borrowing	3,134,733	1,340,000	1,571,500	0	0	0	
Unfunded Maintenance Backlog	250,000	1,953,975	4,965,603	2,101,290	1,404,070	712,760	
Total Available Funding	12,835,079	6,454,556	8,562,103	2,101,290	1,404,070	712,760	
Total Uncommitted Funding Available	0	0	0	0	0	0	

Oxford City Homes
Capital Programme & Funding Summary

	2008/2009	2009/2010	2010/2011
Capital Spend Requirement	**£000's**	**£000's**	**£000's**
Decent Homes	9,459	7,642	7,434
Disabled Adaptations	575	580	580
Sheltered Blocks - Decency & Remodeling	4,057	3,556	3,236
Tower Blocks - Decency & Other Works	2,750	2,750	2,754
Mascall Avenue			
Shops	172	174	200
Funds Required	17,013	14,702	14,204
Funds Available			
Supported Borrowing	546	546	
Major Repairs Allowance	4,900	4,850	4,800
RCCOs /Capital Financing Reserve	3,327	830	830
RTB sales	300	300	300
Actual / Contracted	5,688		
Asset disposals approved	4,030	520	
Potential from Sheltered Blocks		4,200	2,300
	18,791	11,246	8,230
Funding Surplus / (Shortfall) per year	1,778	-3,456	-5,974
Cumulative	8230	4,774	-1,200

Appendix A: Value for Money and Efficiency Action Plan

Introduction

1. The Audit Commission describes Value for Money as the Council's most significant challenge. Over the part two years progress has been made in understanding our costs but they remain relatively high when compared to other District Councils. Budget savings delivered in 2007-08 and planned for 2008-09 which take a combined £7m out of the Council's net revenue budget will make a significant contribution to improving this position.

2. This report describes the context and background to the Council's Value for Money agenda, and sets out the strategy to improve Value for Money.

The Government Agenda

3. The Local Government White Paper describes a vision of high quality, efficiently delivered local services, shaped by local authorities to be focused on users' needs.

4. The 2007 Comprehensive Spending Review (CSR07) builds on the progress made in the 2004 Spending Review (SR04) period. All public services have been set a target of achieving at least 3% net cashable efficiency gains per annum over 2008-09 to 2010-11.

5. This amounts to £4.9 billion for local authorities. CLG has set out a framework in the National Improvement and Efficiency Strategy to support this agenda. Regional Improvement and Efficiency Partnerships will develop and lead on implementation of Regional Strategies (to be published Spring 2008).

6. Chapter 7 of the Local Government White Paper sets out key themes to drive forward efficiency and innovation through service transformation:

   - Business Process Improvement (redesign around customer needs)
   - Collaboration
   - Smarter procurement and use of competition
   - Better use of technology
   - Asset management

7. The Council's transformation programme embraces these themes as summarised below.

The Council’s senior management restructure gives the Council both a Transformation manager and a Corporate Procurement manager to push forward the changes required to achieve better efficiency.

Oxford City Council Targets

8. The national performance indicator set has been introduced alongside CSR07. National indicator N179 seeks information on the value of efficiency gains achieved by councils during CSR07. The target has been set as part of the LAA, representing 3% per annum net efficiency gains or a cumulative 9.3% over the 3 year period.

9. The target for efficiency savings set out in CSR07 is calculated from a combination of net revenue and capital expenditure for both the General Fund and HRA from a 2007-08 base. Oxford City Council’s target is £1.372k for 2008-09 or £4.253k of ongoing efficiencies by 2010-11. General Fund and HRA revenue savings and capital savings can count towards this target.

10. The Council’s own three year General Fund budget requires savings of £3.5m in 2008-09 rising to a cumulative impact of £5.2m by 2010-11. Similarly the HRA three year budget sets ongoing savings of £1.0m in 2008-09, an additional £0.3m in 2009-10 and a further £1.2m in 2010-11.

11. Not all budget savings will count towards the efficiency target: for example increasing fees or introducing new charges are not considered as efficiencies, nor are savings achieved through service reductions. However the focus of savings in the 2008-09 budget has predominantly been efficiency, and £2.8m of the £3.5m General Fund savings and £0.6m of the £1.0m HRA savings will contribute to the target. It is clear that in meeting the three year budget challenge focussed on delivering improved efficiency and value for money, the Council will significantly exceed national targets of 9.3% over 3 years.

12. The Finance team will use the latest budget figures to pre-empt the CiPFA Stats that show the relative spending levels of the Council’s services against other councils. This information will be used alongside the KPMG Value for Money mapping (explained below).

13. Central government expects significant efficiency gains to be delivered through better procurement. An internal target to achieve £300k has been set, which constitutes 1% of external purchases.

14. As part of the budget process for 2008-09, workforce reduction targets were set to reduce headcount from the 2007-08 establishment base, by 4% for front line services and 7% for support services by the end of 2008-

09. We will set a further target to reduce headcount by a further 1% per annum through 2009-10 and 2010-11, which will contribute to efficiency gains.

Actions to improve value for money

15. The Council has embarked on a range of transformational initiatives that will create improvements in value for money:

- The senior management restructure which will provide a more coherent framework to address the City's priorities and deliver the budgeted £202k per annum savings;
- Service restructures designed to reduce management layers, meet or exceed workforce reduction targets and achieve improved rankings in terms of unit costs when compared to other councils;
- A system of programme and project boards to monitor performance and drive improvement across the Council;
- A review of HR policies to ensure that they support change management and modern work styles;
- A structured approach to preparing project proposals including a business case and measurable outcomes;
- Transformational projects overseen by a programme board including CRM;
- A review of the 'lean thinking' exercises carried out by the Council in 2007 to understand the lessons learned;
- Shared services review to investigate options for collaboration with neighbouring local authorities, with an initial focus on IT services, contributing to the Corporate Plan target of saving £200k per annum from support services in 2009-10.

The action plan to achieve better Value for Money is attached at appendix 2.

KPMG Value for Money mapping

16. We have commissioned KPMG to map each service's cost against performance. The brief for the project is attached at Appendix 1. The project will provide an independent review and challenge to the value for money analysis that has been undertaken in-house both in autumn 2006 using CIPFA statistics and benchmarking, and in the summer of 2007 when each Directorate undertook to benchmark each of its services.

17. The review will also enable trend analysis to show movements in cost but also improvements in performance. It will start by comparing our performance profile against the national profile for English districts but will also examine and interrogate more service-specific benchmarks where

appropriate, and where possible using outcome-based metrics such as unit costs.

18. The output from this review will inform the selection both of services for more in depth value for money reviews but also of areas to be subject to market testing. The Council is embarking on a full market testing exercise for Leisure services where both cost and quality have scored unfavourably compared to other councils' provision. A market testing exercise for car parks has also provided an insight into where further savings can be achieved. It is intended that other services should undergo an equally rigorous review with City Works expected to be the next service for review and a target to cover 80% of the Council's services over the next 7 years.

19. This analysis will also aid the selection of areas to target for cost reduction by providing the starting point for understanding the cost vs quality matrix for each service.

20. The KPMG review will be followed by fundamental service reviews. The progress made by the Leisure Board is a good example of how a focused service can quickly develop and implement improvements if the Council commits resources to it.

Value for Money Culture

21. The development of a performance culture across the Council is also a vital part of achieving and embedding value for money.

22. Each Service will have a Service Transformation Plan that includes sections setting out how the Service will contribute to value for money through savings initiatives, invest to save proposals and market testing, and demonstrate how unit cost reductions and workforce reduction targets are being achieved. The initial thoughts from Service managers are currently being developed. Ideas range from introducing e-procurement, using CRM effectively and making better use of current customer contact methods and partnerships with other organisations. These ideas will be developed through the first quarter and included in the budget strategy for 2009/10 onwards to be presented to City Executive Board in July 2008 as part of the Medium Term Financial Strategy.

23. Half-yearly Performance Clinics will review progress in achieving service plan targets. Value for money targets will be an integral part of the management appraisal system.

24. All staff will be encouraged to bring forward ideas to improve efficiency and value for money. The 1 in 10 group workshops engaged staff through

the 2008-09 budget round and provided a vehicle for regular staff consultation.

25. By gaining a thorough understanding of cost and performance data and developing a culture of comparing with the best services drawn from both public and private sector peer organisations, the Council will develop robust plans to improve value for money.

Links to Medium Term Financial Strategy and 2009-10 budget

26. The Council's Medium Term Financial Strategy will be updated in the first quarter of 2008-09 and the emerging Value for Money themes will link directly to setting the strategy for the 2009-10 budget.

Appendix B: People Strategy   v1 6 March

Introduction

The principle behind the formation of this strategy is:

Achieving a plan that focuses on developing a committed capable workforce that achieves the Council's objectives.

What is the challenge?

- Providing high quality services and good value for money
- Developing what customers need
- Addressing absence levels
- Delivering the equality agenda
- Having a low unemployment locally
- High cost area of living

What change is predicted?

- Pay modernisation & implementation of single status
- New ways of working/services via Unitary/Partnership/shared services
- Financial pressures
- Further equalities legislation
- Flexible working practices
- Aging workforce
- Aging population
- Reduction in workforce number
- Further use of technology

How will the people strategy be delivered?

- HR Business partner via Service level agreements
- Partnership working with Trade Unions and others

How will success be measured?

- Mori survey
- Staff turnover
- Staff sickness
- Complaints

- Disciplinary
- Grievance
- Exit interview
- BVPI & Local targets
- Achievement of level 3 Equalities Standard
- IIP for all

KEY OBJECTIVES

- Innovative recruitment and retention to ensure the Council is able to attract and retain staff
- Develop a culture that encourages and rewards excellence, perseverance, flexibility and initiative
- Foster good employee relations. Develop good communications in all directions; work in partnership with Trade unions and ensure fair and equitable policies and dispute resolution procedures
- Develop strong leaders, promote career development, develop a culture of learning and encourage employees to take responsibility for their own continuous development
- Ensure that the organisation is a safe place to work and promote work for health and health for work
- Implement corporate equalities, use flexible working to achieve work/life balance and develop a flexible workforce that evolves in line with organisational demand

Appendix C: ICT Strategy 2007-2010

1. Document History

Version

Version 2, published March 2007, last updated 5 March 2007

Author

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2. Context

Business Systems People Organisation

The Council's ICT Service is delivered by *Business Systems* and reports to the Director of Finance and Corporate Services**{** XE "Director of Corporate Resources" **}**

The ICT Service is centralised and provides support to the full range of Council services The Unit employs 23 FTEs organized into four teams (alphabetically)

- Applications Services**{** XE "Applications Services" **}**
- Governance
- Infrastructure Services
- Service Desk

The service is committed to:

- A strong customer focus
- Service excellence
- Cost effective service delivery
- Improving efficiency
- Delivering to corporate priorities

<u>Hardware technology</u>

All PC and central server hardware is Dell branded for:

- Full life-cycle costs
- Robustness and reliability
- Effective and efficient asset support, maintenance and management
- Energy efficiency
- End of life environmental impact and disposal compliance

All printer hardware is HP branded for:

- Full life-cycle costs
- Robustness and reliability
- Effective and efficient asset support, maintenance and management

All network / switch hardware is centered on CISCO and HP for:

- Cost / Reliability
- Support and maintenance

Software technology

Microsoft operating systems and Office tools are deployed as standard on all desktops, laptops and tablets.

The Standard PC (desktop, Laptop, Tablet) software platform is:

- MS Windows XP
- MS Office 2003 Professional edition under a Select agreement
- Internet Explorer 7
- Adobe Reader 8
- Adobe Flash reader 8

Purchasing software under a Microsoft Select agreement permits software to be deployed on downgraded versions (eg purchase Office 2007 and deploy Office 2003) and does not mandate financial commitments beyond the one-off purchase.

Windows Vista and Office 2007 will replace Windows XP and Office 2003 as the standard deployment platform from 2009/10.

The Standard server software platform is:

- MS Windows 2003
- Delivered under VMWare
- Oracle or MS SQL Server databases

However, not all business applications will run under this technology mix. Alternative technologies will be considered and supported, providing they are considered commercially robust and supportable.

Telephony is managed by the Council's Facilities team;**{** XE "Telephony" **}** Business Systems provide support as required.

3. Business Themes

Customer Self-service

Internet based technologies continue to develop and offer new opportunities for collaborative working with customers and other partners.

Delivery and support of additional Internet based services will place further demands on the Council's communications network; this will be upgraded in line with demand.

Flexible working
We will deliver ICT infrastructure and supporting processes to facilitate flexible working practices including mobile and home working arrangements.

Loss of business
We face the potential of loss of business as some of the Council's services are sold off or migrated to independent trusts. Whilst the ICT services can be scaled-down this will not always be proportionate. This may bring new challenges in maintaining some skill sets; fixed overheads will fall more heavily on remaining services

4. Business alignment and engagement

Service delivery
We will continue to focus our resources on supporting and delivering business-led initiatives. A comprehensive Account Management service will be implemented (commencing March 2007) that will ensure our activities and services are focused on Customer need.

Monthly account reviews with Customers will focus on performance against SLA, Application lifecycle management, planning for new services / initiatives.

Service desk
We are creating a centre of excellence for managing customer enquiries and service requests that pans the broad spectrum of ICT services we provide. We will **seek** to improve services and reduce costs by introducing a package of measures including education, practice and process automation.

Customer satisfaction
We will continue to formally seek customer feedback through an annual satisfaction survey. We will publish the results of our findings and use the customer feedback to improve services appropriately.

5. Staffing

Deployment
We will continue to use internal staff where possible to deliver the Councils IT services. External consultants and contractors will be used where we have specific short term capacity constraints and skill gaps.

Skills
We will continue to grow and develop the Unit's management and technical capabilities. Particular focus will be given to embedding PRINCE and ITIL practices within the Unit.

6. Infrastructure

Data centre

The Council operates its own data centre from the 3rd floor of SAC. This is a significant, yet ageing facility that was originally designed and established some decades ago for the Mainframe computer.

The potential redevelopment of SAC by Carlyle (the leaseholder) is providing a catalyst to redevelop / relocate the Data centre. We are exploring options to co-locate our server equipment with another authority, potentially, the County Council.

Desktop lifecycle management

Desktops will continue to be centred on Dell's range, and will be replaced in year 6 of service. The Council currently operate around 1250 PC devices, with growth of around 50-100 devices per annum. We expect to install around 300 new units per annum.

Virtualisation is a key theme in the development of PC technology; the main benefits are reduced hardware cost and operational management and support. We expect to pilot the deployment of Virtual PC technology during 2008/9 as a potential alternative to conventional PCs.

We will continue to operate and support Microsoft operating systems and Office tools on the desktop, with a migration away from Windows 2000 and Office 2000 to Windows XP and Office 2003. Longer term, we'll migrate to Windows Vista and Office 2007, but not before FY 2009/10. All new software purchased from February 2007 will be upgradeable to Windows Vista and Office 2007 at no extra cost.

Server lifecycle management

Servers will continue to be centred on Dell's range and will be replaced in year 6 of service. Virtualisation (consolidation) of the existing physical server base will continue throughout the mid term with a view to replacing as many single physical servers as is practical. Note, not all servers can be virtualised.

Where possible, we will continue to operate and support Microsoft operating systems.

Data Storage Management

Demand for computer based storage continues to grow, this trend that will not be reversed in the mid term. We will implement a package of practice, education, policy and technology (including comprehensive data and email archiving) to contain the incremental demand and associated cost for additional data storage.

The solutions we implement will reduce the need for additional storage in the short term and help contain storage management costs.

Computer printed output

The Council operates a large number of stand-alone and network connected printers. Commencing in 2007/8, we will implement a package of practice, education, policy and technology to reduce the volume of computer generated printed output, delivering both financial and environmental benefits.

Data Networks

Increasingly sophisticated business applications and the general increased demand for ICT services generates a growing demand for network capacity. We will monitor and match network capacity in line with demand.

Older and slower network components will be upgraded; more use will be made of secure Wireless networks, particularly in environmentally sensitive locations (eg Town Hall).

Voice and Data integration

The integration of voice and data communications is driving new opportunities to improve service delivery and reduce operating costs. Having operated a successful VoIP pilot during 2006/7, we will seek “self funding” opportunities to rollout this infrastructure during the course of the mid term and VoIP-enable components of the network infrastructure during planned and routine lifecycle maintenance.

7. Efficiency and automation

Benchmarking

We will benchmark our services against those provided by other Public Sector organisations through SOCITM. We will use the benchmarking results to identify targets for service, cost and efficiency improvements.

Tools

We will continue to deploy new tools and technologies to enable the unit to improve its operational obligations, efficiency and effectiveness.

8. Governance

Procurement, Vendors and contract management

We will continue to strengthen our management of key vendors with a view to establishing value added partnerships where appropriate. All purchases will be completed in line with the Council’s procurement policies, contracts will be constructed to protect the Council’s interests.

Software licensing and compliance
We will enhance our software asset management practices with the view to gaining ISO 19777 accreditation.

Hardware asset management
We will enhance our hardware asset management practices with the view to full and effective life-cycle management.

Project Management
We will use Prince2 methodologies to manage all non-trivial projects.

ICT process development
We will extend the deployment of ITIL based management process across the scope of ICT Service Management.

Collaboration and Shared services
We will continue to strengthen our relationship with other Authorities, seeking opportunities to collaborate for mutual benefit. We will support our internal customers in delivering their shared service and collaboration initiatives.

We will continue to innovate delivery of the Council's ICT services, with a view to improving range, quality, effectiveness and efficiency.

Financial management
We will continue to manage our finances well and to operate within budget. We will continue to contribute towards the FCS directorate cost reduction plan.

Business Continuity & Disaster recovery
We will continue to expand the scope of services covered by our DR capability, in line with business demand and fire-drill our DR procedures annually.

We will seek to integrate the Council's BC and DR plans with scenario based emergency drills

Security
We will continue to take all reasonable steps to ensure the Council's systems are protected from internal and external security threats including but not limited to personal abuse, hacking attempts and the effects of malware.

Email
The Council is increasingly dependant upon an available and reliable email service. We will continue to grow the email service in line with demand. Viruses and SPAM are the greatest threats to the sustainability of email systems worldwide; we will work with ISPs, Anti Virus & Anti-span partners to reduce, and if possible eliminate, the threat of viruses and SPAM to the Councils' systems.

Appendix D: Asset Management Strategy

Background

For the time being the Councils 2006 Asset Management Plan remains its principle Property Strategy document. The Council has however now commissioned expert external consultancy advice to progress the production of a new Asset Management Strategy and Plan as detailed below. The process is also informed by a recently completed review of the Council's Asset Management arrangements by the Audit Commission. This is accompanied by an agreed improvement action plan.

The Way Forward

The property asset strategy project referred to above has two key outputs:

1. Action programmes for all aspects for the Property Asset Base to ensure a cohesive approach to property decision making, locked into the Council's core aims and objectives. This will not necessarily await the production of the Strategy, but will be produced on an ongoing basis as and when each part of the action is ready.

2. **A property asset strategy document which will provide an agreed high level approach to property assets and which will capture all the action programmes**

It is intended that the strategy document will be produced and agreed by the Council by the end of this financial year although action will be taken before, as and when the Council is ready to take it. The strategy will move on from, and replace, the Asset Management Plan produced in 2006. The evolution of the process will also inform bids for capital and revenue in future years, effectively developing a plan to implement the plan.

In terms of its operational portfolios the strategy development will lead to an alignment of the Councils assets with the delivery of its priorities and objectives. This will lead to the desirable outcomes of:

- Improving customer access to services.
- Improving the working environment for staff.
- Acting as a catalyst for physical and social regeneration.
- Generating capital receipts and making ongoing revenue savings.

At the same time, the Council recognises the benefits of its land and property assets being used as a corporate resource and managing it as such. It has created a discrete Property and Facilities Management Service drawing together initially Asset Management and Valuation and Estates activities, Building Design and Construction and Cleaning and Caretaking. This will be followed by a broader review of the delivery of property and construction related activities within the Council with a view to determining whether further structured or functional change is desirable to strengthen management arrangements.

The Planning Process

As referred to above the intention will be to develop strategic plans for categories of property within the portfolios.

The offices for the future proposal will dovetail with the Council's broader Transformation agenda and will implicitly consider opportunities for joint working with the County Council and other public sector partners. The Council will undertake a strategic review of the investment portfolio that will start to inform investment and disinvestment decisions. It is proposed, subject to City Executive Board authority, to immediately commission a strategic review of both the Covered and Gloucester Green Open Markets with a view to the development of a forward looking business plan that will assist in maintaining a sustainable and viable market. Strategies for community centres will again implicitly need to have regard to existing and emerging guidance and legislation, with particular reference to the opportunities for community ownership and transfer of public sector assets.

We will develop processes that integrate property considerations into the resource mix in terms of both corporate and service planning and will instigate structured property review and challenge as part of that process. Two pilot reviews will be undertaken as part of the current strategic plan development work. Implicit will be the putting in place of robust arrangements for:

- Performance Management/Benchmarking
- Engagement with other public sector providers
- Governance and Decision Making

District Audit Asset Management Review 2007/08

The above report has recently been published by the Audit Commission and gives an assessment of current performance, recommendations for improvement and an agreed action plan. The review process has highlighted as high priority a need to:

1. Provide a corporate challenge for the size, form, mix and distribution of the current asset base through the continuation of it's (the Council) programme of property reviews of assets.

2. Ensure that the strategic plans for assets fully encompass the aims of the Council, and the long-term business plans of the service departments and those of its partners.

3. Build capacity to manage the asset base strategically.

These high priorities form an essential part of the current work programme with a view to early implementation.

Comprehensive Area Assessment (CAA - From 2009)

The key line of enquiry (KLOE) in relation to Asset Management is:

THE ORGANISATION MANAGES ITS ASSETS EFFECTIVELY AND SUSTAINABLY TO HELP DELIVER ITS STRATEGIC PRIORITIES AND SERVICE NEEDS.

There will need to be evidence that the organisation:

- Has a strategic approach to Asset Management based on an analysis of need to deliver strategic priorities, service needs and intended outcomes.
- Manages its asset base to ensure that assets are fit for purpose and provides value for money.
- Works with partners to maximise the use of its assets for the benefit of the local community.

A clear emphasis on value for money and partnership working aspects.

Repairs and Maintenance

The current repairs and maintenance budget is in the sum of £530K per annum. Expenditure of this is based on existing condition information and through consultation with service departments, and in terms of the investment portfolio with reference to contractual obligations. This amount is not adequate to maintain the portfolio or to reduce current maintenance backlog.

An additional £200K has been included in the budget for 2008/09 to tackle the R&M backlog. This will be spent on:

- Repairs and refurbishment of roof areas and rainwater goods on the Town Hall to maintain the fabric and prevent longer damage.
- External repairs and decorations to properties in the City Centre investment portfolio to maintain the fabric and comply with lease obligations.
- Repairs to stone walls around parks and cemeteries to prevent further deterioration and meet Health and Safety requirements.

- Upgrading and repairing lifts in central office buildings to meet current requirements.

Corporate Initiatives

We will particularly commit resources in 2008/09 to support:

- The Leisure market testing exercise.
- The integration of Property into the wider Transformation agenda.
- The development of an Office Accommodation Strategy, particularly addressing the St Aldate’s Chambers project.

TABLE A - ASSET MANAGEMENT STRATEGY

Draft Structure

Financial

- R&M Backlog
- Whole life Costing
- Budget vs projected ongoing R&M costs required to support strategy
- New assets – budgetary considerations

Council Vision / Direction

Where does the council want to be in 5 – 10 – 50 years?

Functional / Organisational

- Centralisation of property portfolio leads to control, efficiency and responsibility
- People / Resourcing / Skills
- Financial reporting / revenue / cost centre location

Strategies

Key Questions:

What are we holding?
Why are we holding it?
Where are we holding property?
How do we provide for the need? (options)
When do we need more / less etc?
Do we want to increase, decrease or hold property within each property group?
Are we getting best value from our asset base?

Property Group Priorities:

Leisure Centre
Community Centres
Investment Properties (sub categories required)

Then:
Parks & Cemeteries
Admin Buildings
Town Hall
Non HRA Housing
Other

Development / Acquisition

- Development of council properties and land to fulfill Council's goals (eg Affordable Housing, West End etc)
- Acquisition for strategic ends.

External initiatives & Environmental influences

- CPA - Key Lines of Enquiry
- Performance Indicators
- Quirk Review – Community ownership / control of assets.
- RICs guidance
- Shared Service Agenda
- LAA
- Council's Priorities
- Input from Area Committees
- Population projections
- Economy (incl Property Mkt)

Capital & Funding Strategy

- Assumptions
- Treasury Strategy
- Funding – Rev / Cap / Prudential Borrowing etc
- Life cycle of capital spend

HRA

- Similar process in parallel with this strategy.

Appendix E: Demographics

Key points:

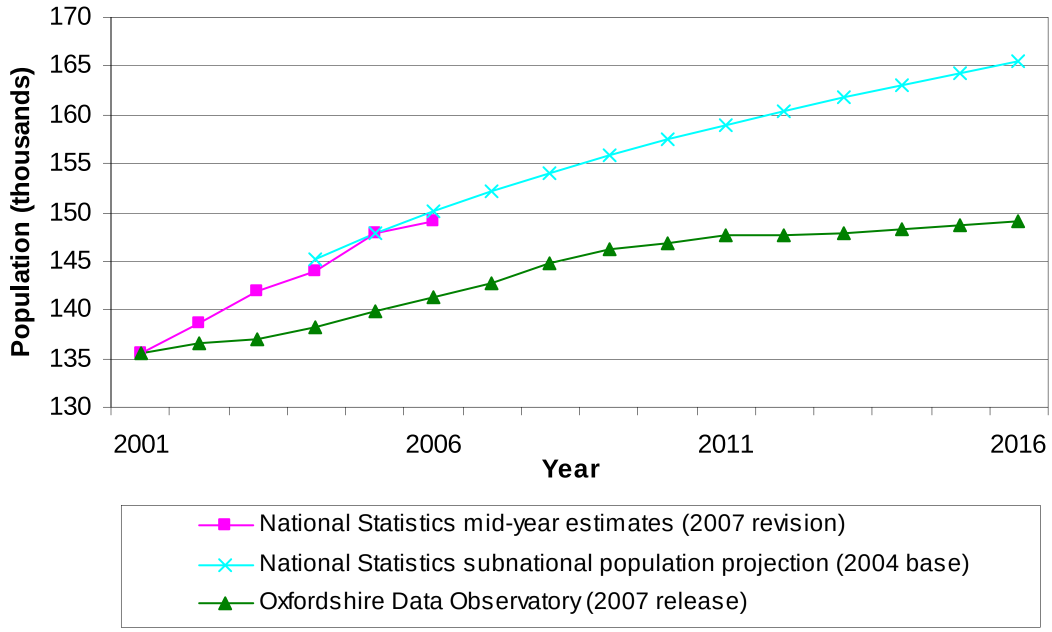
- Projections of Oxford's population indicate that it has increased since the Census 2001 figure of 134,248 and will continue to increase to 2011-12
- There are different estimates of the rate of this increase
- The wards with the largest population increases are predicted to be St Margaret's, Barton & Sandhills and Northfield Brook wards
- A 13% increase in households is predicted between the years 2001-11, with a decrease in the number of people per household
- The age and gender structure is predicted to remain relatively stable in the period to 2011
- National Statistics estimate that by mid-2004 the non-white population had increased to 15.3% from 12.9% in 2001. The largest increases are predicted in the Chinese, Black African, Indian and 'other ethnic group' populations. The ethnic minority population is likely to continue growing in size.
- 2095 new EU migrants applied to work in the Oxford area in the three years following April 2004, the majority from Poland. There is likely to be continued migration from existing and future EU accession countries.

Total population

Projections of Oxford's population indicate that it is has increased since the Census 2001 figure of 134,248 and will continue to increase to 2011-12. However two different models used to estimate this change differ considerably over the rate of the increase.

It is important to understand that population projections tell us what the population will be if recent trends continue into the future. In reality these trends will almost certainly alter due to future policy changes, changes in economic climate etc.

Oxford population – estimates and projections 2001-2016



The graph above shows population estimates and projections produced by National Statistics compared with those commissioned by Oxfordshire Data Observatory from the Greater London Authority.

The two estimates take as their start point the 2001 National Statistics mid-year estimate of a 135,500 population. They predict very different trajectories after this point:

- National Statistics estimates indicate a rapid increase in Oxford's population to 149,800 in mid-2006 and 159,000 in mid-2011. This is much faster than the projected rate of population growth for the UK.
- Data Observatory estimates predict a more modest increase to 137,800 in 2006 and 139,800 in 2011, declining thereafter. This is in line with the projected rate of population growth for the UK.

The major difference between the two models is that the Data Observatory projections take into account District planning data on actual and planned housing completions. Clearly future planning policy in Oxford, the County and the region will have a significant impact on the actual change in the size of Oxford's population.

A key issue for the City Council is the impact that an inaccurate population estimate can have on financial resources allocated by central government. This is illustrated by the significant difference between the pre- and post-Census 2001 mid-year estimates – a shortfall of around 15,000 residents. The wide disparity between the two projections presented above indicates the possibility of a similar downward adjustment to the financial resources allocated to the Council following the 2011 Census.

National Statistics do not produce a separate projection of the change in the number of households. However the Data Observatory projections indicate an increase from 51,732 households in 2001 to 54,302 in 2006 and 58,219 in 2011. This is a larger projected increase than the increase in population i.e. predicting a decrease in the number of people per household.

National Statistics have not produced population projections at a sub-Oxford level. However Data Observatory projections indicate that the largest population increases will occur in St Margaret's, Barton & Sandhills and Northfield Brook wards.

Gender and age structure

The key characteristic of Oxford's age structure is its very large young student population – according to the 2001 Census Oxford had the largest proportion of 16-24 year-olds of any local authority in Britain. Due to its size, changes in the university student population substantially affect the size of the whole city's population. The most up to date statistics show that in the four years since the Census, the Oxford University student population has remained a similar size, whilst the Oxford Brookes population has increased by some 3,000 students.

The age structure is not predicted to change significantly in the period to 2011, though a slight increase in the proportion of 25-64 year olds is indicated. Additionally, the projections agree that there will be a slight decline in the size of the female population relative to males over the period 2001-11, equivalent to one less female per 200 people.

Ethnicity

The Census 2001 estimated that Oxford had a black and minority ethnic (BME) population of 12.9%. It also showed that the ethnic profile of the City varies considerably with age – only 3.6% of those aged 65 years and over were from BME groups, compared to 19.8% of under 16 year olds. As such it is to be expected that the BME population of the city will increase over time.

Indeed, National Statistics estimate that by mid-2004 the non-white population had increased to 15.3% (as above, Data Observatory projections show a slower rate of increase). The largest increases are predicted in the Chinese, Black African, Indian and 'other ethnic group' populations.

Effect of international migration

The population projections produced by National Statistics attempt to capture the effect of migration on changing populations. The Oxford population has changed since the Census due to migration from new European Union countries, though the extent of this change is difficult to evaluate.

Statistics from the Worker Registration Scheme show that 2095 new EU migrants applied to work in the Oxford area in the first three years of the Scheme, the majority from Poland. However there is no data to show how long these individuals stayed for. Other statistics show that 5,100 foreign nationals applied for National Insurance numbers during 2005/06, a doubling of the 2004/05 figure. The largest group (around 900) were Polish nationals.

Over the next four to five years there may be new patterns of international migration which will effect the Oxford population. In the European context there may be an increase in migrants from Romania and Bulgaria as working restrictions are lifted, with the prospect of Croatia joining the EU by the end of the decade.

Appendix F - Context

Oxford is significantly different from any other population centre in Oxfordshire. It is economically dynamic, culturally and ethnically mixed, and with a youthful population. The City covers 17.6 sq miles and is home to around 150,000 people. Oxford is a densely packed urban space, with a high incidence of traffic congestion and pollution. It is a City, with all the advantages and many of the disadvantages that cities bring.

This fact is at the heart of the City Council's policy and service delivery dilemma. Oxford is trying to deliver the needs of a city on the budget of a shire district.

Awareness of a number of key issues needs to feed into the Council's medium-term strategy.

Population

1. Within its existing boundaries, Oxford City Council has a population of approximately 149,100, accounting for around 24% of the County population.

2. The population has grown 10% in the five years 2000-05 – the fastest growth of any Local Authority district in the South East.

Local Economy

3. Oxford is a global brand for education, health, bioscience, information technology, publishing, the motor industry and tourism. Around 3,400 businesses provide 108,000 jobs. Seven of the ten largest employers in the Oxfordshire sub-region are within Oxford.

4. The knowledge economy is key, with Oxford and Oxford Brookes:

    - providing educational services of international standard
    - driving the emerging research and development industries
    - leading in the creation of hi-tech spin-off companies. Staff from Oxford University have formed 80% of the 114 technology-based spin-off companies in Oxfordshire. Spin-offs employ around 3% of the County's workforce.

5. The hi-tech sector:

    - has stimulated cluster development and business networking

- includes newly emerging areas, such as ICT, bioscience, and pharmaceutical companies and also traditional businesses which have embraced technological advances (e.g. BMW and the publishing houses).

6. The car industry continues to play a role, with the Mini still selling well.

7. Tourism is a significant part of the economy. More than 8.8 million visitors spend over £568 million annually.

8. The City is an important sub-regional shopping centre and is expanding capacity by redeveloping both the central Westgate Shopping Centre and the West End area of the City Centre.

9. Local small to medium sized businesses are fundamental to the prosperity of Oxford and the wider sub-region.

10. There has been little change in the total number of jobs in Oxford over the last 30 years. As manufacturing has declined, these jobs have been replaced by employment in the health, education and service sectors. 88% of employees now work in services, including 19% in retail, hotel and catering. While a successful level of business competitiveness has kept unemployment at low levels there is a clear need for business development and growth (within constrained boundaries).

Housing

11. The adopted local plan (2005) sets a minimum density of 40 dwellings per hectare (dph) for the city. Oxford has, over recent years, been building around 60 dwellings per hectare, taken as an average across the City. In 2005/06, 80 dph were built.

12. The City is facing an affordable housing crisis as a result of large service economy and restricted land supply due to tight boundaries, the risk of flooding in many areas and the need to protect and enhance the natural and historic environments.

13. This results in high demand and extremely high house prices. The average Oxford house now costs roughly ten times average income. As a result, housing choices are limited.

14. The percentage of owner-occupiers is relatively low in the City – 56.1% compared with the South East (75.6 %) and England (69.9%). The percentage of private rented accommodation, on the other hand, is high – 22.1% in Oxford compared with 10.9% in the South East, and 10.4% in England.

15. There are large concentrations of private rented sector houses in multiple occupation, often in a poor state of repair, particularly in the east of the City. Two Super Output Areas in Oxford are among the poorest 10% of Super Output Areas in England for living environment. The whole of St. Mary's Ward is in the top ten most deprived Super Output Areas in this category. Oxford has the highest proportion of households without a bath, shower, or toilet in the South East, and the fifth highest in England and Wales.

16. The most significant consequence of housing need is homelessness. In 2007-08, 9.0 in every 1000 households were in temporary accommodation compared to a SE regional average of 1.9.

17. Currently around 475 households in the City live in temporary accommodation provided by Oxford City Council alone. The true figure - including those housed by Social Services, asylum seekers, those moving on from hostels into insecure intermediate accommodation and those households placed in temporary accommodation in the city by other District Councils - is harder to calculate accurately. It is well in excess of 800 households.

18. The number of people accepted as homeless is far higher in Oxford than in other centres across the County. In 2005/06, Oxford accepted 396 homeless individuals, Cherwell 179, Vale of White Horse 89, South Oxfordshire 69, and 59 in West Oxfordshire.

19. The average time spent in temporary accommodation by homeless households in the city is high, with 29% spending more than 2 years in such accommodation, compared to a national average of 18%. The average wait for a household requiring a 3 bedroom property is around 5 years, while households requiring larger properties can spend up to 10 years waiting for a suitable property to become available.

20. There are currently over 4,500 households on the City's waiting list for social housing, including 407 households for whom the authority has accepted a statutory homelessness duty. Most of those on the register will never be housed by the Authority.

21. The annual cost of homelessness to Oxford City Council is about £1 million, and we face high demands for housing benefit and resources to tackle deprivation on housing estates.

Ethnicity

22. Oxford is ethnically and culturally diverse. It has:

- a minority ethnic population of 12.9% compared with 4.9% in the rest of the County, and 8.7% in England and Wales. This is the third highest minority ethnic population in the South East

- a lower percentage of residents from white ethnic groups than the rest of Oxfordshire and twice the proportion of people from a mixed ethnic background

- the second highest proportion of people born outside the UK in the South East

- the City's south Asian community is the 9th largest in the South East. The Chinese community is the largest in the South East, the fifth highest proportion in the country.

23. Oxford, because of its large student population, is youthful and mobile, with:

- the highest proportion of 20-24 year olds in the County (16% of Oxford's total population compared to approximately 5% for the other Districts)

- a larger proportion of 16-24 year olds than any other Local Authority in Britain

- the largest concentration of students in England and Wales – 26% of the working age population.

Deprivation

24. Relative to the rest of Oxfordshire, Oxford has high levels of deprivation. The Indices of Deprivation 2007 rank Oxford 154th out of 354, placing it amongst in the top half most deprived Local Authorities in England. Of the 85 Super Output Areas in Oxford, ten are among the 20% most deprived in England.

25. Oxford is estimated to have an unemployment rate of 6.1%, which is higher than the 5.3% national average. There are geographic and demographic pockets of high unemployment in the City (including young Black Caribbean men). Oxford has over 9,000 working age residents claiming benefits – the highest percentage in the county. 26% of Oxford's under-16 year-olds are living in low-income households.

Appendix G – Risks and Opportunities

The main areas of uncertainty for which no allowance, or limited allowance, has been made in the forecast but which are potentially material, are:-

(a) All Funds

Ref:	Description	Impact/Mitigation
(1) Risk	**External Contracts** • The effects of formal external contracts, which come to the end of their term. The base budget gives allowance for RPI only.	Planning ahead, identifying budget provisions as early as possible. Improved procurement.
(2) Risk	**VAT** • Effects of the partial exemption regulations. The Council has taken measures to reduce the likelihood of a breach of the threshold. These measures have been successful to the extent that the provision held against a likely breach was returned to balances in the 2007-8 Budget.	Regular review of partial exemption position. Any future Capital investment in Leisure will need to be carefully monitored and reviewed, as it may result in the Council exceeding its partial exemption threshold.
(3) Risk	**Repairs and Maintenance** • There is a backlog of repairs and maintenance of £9.3m. If the Council does not invest in buildings there is a risk of buildings not being fit for purpose.	Asset Management review of property status

Ref:	Description	Impact/Mitigation
(4) Risk or Opportunity	**Value for Money (VFM) Reviews** • KPMG have been commissioned to undertake a number of reviews in the current and future years. The outcome of which may have implications for reducing costs and changing service provision.	VFM reviews offer choice for implementation
(5) Risk or Opportunity	**Joint Working and Services Funded Jointly with other Organisation** • The future funding plans and decisions by partner organisations in such circumstances can result in pressures for the City Council. e.g. reduction in Joint Use agreement by the County Council.	Ensure Oxford City Council is fully represented on all working groups and attendees are fully briefed
(6) Risk or Opportunity	**Implementation of Strategies** • There are a number of strategies in progress at any time. The outcome of consultation may lead to significant changes to services. • Impact of White paper	Ensure impact of policy changes properly costed and taken into account in decision making. Business Case approach.

Ref:	Description	Impact/Mitigation
(7) Risk or Opportunity	**Housing Green Paper** Housing & Planning delivery grant (not just PDG)	The Housing Green Paper proposes a number of initiatives which could benefit the city in terms of development funding routes. It remains to be seen which if any of these routes will actually deliver additional funding. A number of policy statements are expected around December 07/January 08 which may clarify further risks and benefits from this strand of Government thinking.
(8) Risk	**Job Evaluation** • The financial impact of Job Evaluation is not yet finalised.. The Council has a £700,000 ongoing budget for this but information from other Councils suggests this could be insufficient.	The Council has a provision of £1.4m, and has approached DCLG for permission to capitalize back pay. Any Equal pay settlement must be affordable for the Council and negotiations will take place to ensure affordability
(9) Risk or Opportunity	**Office Accommodation** • The Council may need to move out of St Aldate's Chambers if proposals for redevelopment of the site can be agreed and approved.	The office move will only take place if suitable, alternative accommodation is found/provided and it is in the Council's long term interests to move.
(10) Risk	**Westgate** Delivery Impact on City Centre	Impact fully costed and risks fully explored & mitigated against. Reputational risk if project does not go ahead or overruns.

Ref:	Description	Impact/Mitigation
(11) Risk	**Income Uncertainty** Reliance on income generation in budget (quote figures) Car Parks Leisure Property	Regular reviews if changing policy and levels. Monthly monitoring of all income streams to pick up problems early. Park and Ride transferred Oct 08 - income variation risk removed in favour of fixed sum per annum. Leisure market testing will identify means to improve income

(12)
 	
Risk
	Business Systems:
	
	IT Infrastructure.
	Business Systems have identified an investment programme over the next 5 years to bring IT equipment up to date. The Council has agreed Year 1 of the programme only. If the Council does not invest in IT there is a risk of systems failing.
		Three broad areas of risk:
		
		• Equipment failure
		  • Increased risk of major service outages for extended periods, possibly days at a time
		  • Increased risk of minor systems failures resulting in poorer ICT service provision to staff delivering both front-line and back office services
		  • Increased support costs (internal and external labour) likely to result in a demand for additional internal heads
		• Obsolescence
		  • Risk that Business Systems will not be able to upgrade Core Business Applications in line with statutory requirements, because the underlying infrastructure is no longer supported by the Application software vendor

		- Lack of available skills and spare parts to effect repairs resulting in an inability for Business Systems and its partners to keep the Council's systems operational - Demand for major investments at short notice to resolve critical systems failures - Risk that a solution to a major fault may take weeks or months to implement, due to the interdependencies of systems components and their incompatibility • Opportunity cost - Systems are so out of date that they prevent the operational Business Units implementing their step change improvements required for efficiency and productivity gains - Unable to implement new services as the underlying technology is either not supported or does not have capacity to support the additional workload demands

Ref:	Description	Impact/Mitigation
		• Mitigation o Reduce service levels to accommodate lower service availability o Divert additional revenue spend to fund extended support agreements for out of warranty equipment o Defer all non-essential work within Business Systems whilst staff are diverted to maintain failing equipment o Re-assign newer / higher specification equipment between staff where necessary o Close down lower priority operations o Source equipment and spares from the "recycled" market o A reserve of £250k was created in 2007-08 so that essential investment can go ahead.

(b) General Fund

(i) Revenue

Ref:	Description	Impact/Mitigation
(1)	**Customer Services:** <u>Local Cost of Benefits</u> The budgeted local cost of Benefits makes assumptions about performance on recovery of overpayments and levels of error in benefits paid. Decreased levels of performance can affect levels of Housing Benefit subsidy that are received.	The 2008-9 budget budgets for a net income from Local cost of benefits of £200k per annum, with increased targets for the next 3 years.. This requires sustained high levels of recovery of overpayments. This is monitored monthly.

Ref:	Description	Impact/Mitigation
(2)	**<u>City Works</u>** **Waste Partnership – Waste Credits** The Council has a lower allocation of waste credits from 2009-10 onwards than is necessary to cover the tonnage of waste collected from both domestic and trade waste. The allocation formula is a key debating point of the Oxfordshire Waste Partnership and the different formulae result in a different hit for Oxford.	The cost is uncertain, it depends on the price of waste credits in 2009/10 but may be as much as £0.5m. Officers are working on possible options for reducing the financial hit including appealing to Defra for a review of the allocated credits and options around Trade Waste (incl. Increased recycling) and the Waste Partnership formula.
(3)	**Community Housing and Development** <u>Supporting People</u> *The national 3 year financial settlement for Supporting People has imposed a 5% year on year cut on the Oxfordshire Supporting People Partnership's Funding.*	The SP Partnership have pursued a conservative financial strategy, leading to a £1M surplus in the budget for 08/09 on current funding. This is be sufficient to absorb a 5% cut in funding without reduction in services in the current year. For the future, competition for funding from partner districts and other agencies is likely to increase, with pressure being put on the City to agree a more even spread of funding across the county. We are ensuring that needs mapping used to form a basis for the allocation of SP funding reflects the reality of need in the county.
	<u>Home Choice</u> Current funding levels are adequate; risk remains attached to the scheme in terms of the shortfall of	The Home Choice team are seeking to develop relationships with new landlords, including those whose properties have been removed from use as temporary accommodation. We are seeking to challenge the Rent Officer Service over what we perceive

	available properties/landlords willing to take up the scheme, and the potential for falls in HB levels due to restructuring of the Rent Officer Service and the introduction of Local Housing Allowance. Any decline in uptake of the scheme would lead to increases in the cost of temporary accommodation.	to be inequities in the arrangements they have made in regard to establishing a Broad Rental Market Area which we believe disadvantages tenants in the city.
(4)	**City Development** **Section 106** The Government is proposing a change in Section 106 arrangements. The proposal is that the majority of S106 contributions will be replaced by a new contribution called "Community Infrastructure Levy". This will be a tariff on new developments collected by the District Council but shared with infrastructure providers including contributing to regional projects. **What about uncertainty over PDG?** The Government's criteria for the Housing and Planning Delivery Grant are still awaited. **New Growth Point –** The City's status as a NGP is confirmed in the Panel report on the SE Plan. In the meantime work continues in the context of the renaissance of the West End. Infrastructure aspirations outstrip funding opportunities **TIC/Town Hall**. Feasibility study considering business	

	case for moving the TIC into the Town Hall	
(5)	**<u>Concessionary Fares</u>** The bus companies appeal for increased costs in 2006-07 and 2007-08 was settled in early 2008 but a new appeal has been lodged for the 2008-09 reimbursement formula and a final decision will be made by DfT. The National Free Travel scheme introduced in April 2008. has led to significant increases in demand for bus travel and hence cost.	Impact of all possible reimbursements modelled, liaison with neighbouring districts ion impact of new arrangements. Lobbying central government for additional funding.
(6)	**<u>Environmental Development</u>** **Contaminated Land** Parts of the Contaminated Land Strategy have not been progressed since it was adopted by the Council in July 2001, due to budgetary constraints. The duties to inspect potential contaminated land have been extended to include radio active contaminated land.	Risks of claims for loss or damage arising from failing to carry out inspections of contaminated land.

(II) Capital

Ref:	Description	Impact/Mitigation
(1)	**Capital Receipts** • The Capital Programme (apart from government support for DFGs) is wholly dependent on capital receipts, developer contributions and occasional specific Government Grants. This severely restricts the ability of the Council to deliver all its capital aspirations. If the Council does not make disposal decisions it can not fund capital schemes and risks not delivering initiatives like IT investment.	Impact - Capital programme can not be delivered Mitigation – approve capital programme within resources. Continue to only allow capital schemes to proceed when funding is in place.
(2)	**Bonn Square** Risks around project, delivery timetable and final cost	Progress report to CEB October 2008 Completion autumn 2008.
(3)	**Disabled Facilities Grant** Demand exceeding Govt grant	
(4)	**<u>Leisure & Cultural</u>** Implementation of service restructuring proposals Establish work force plans which reduce costs of running leisure centres Establish charging strategies which increase income and support broader strategic aims of the Council Establish centre opening hours to reduce costs and	Prolonging timescale Dependant on the restructure of the service Political wishes

	improve effectiveness	
	Commission a marketing and session scheduling plans for each centre to increase occupancy levels	Cost not budgeted
	Commission staff and customer satisfaction research	Cost not budgeted
	Ensure repair and maintenance plans and performance are adequate and investment plans are reviewed	Life expectancy of current buildings versus cost planning for new facilities
	Examine options for a leisure/corporate Oxford resident discount card	Cost
	Co-ordination with community centre provision	Cross sector liaison and political wishes
	Agree Leisure Strategy including role of community centres, leisure centres and non-premises based sports development	Dependent on the co-ordination with community centre provision
	Market test comprehensively or selectively the service	Cost
	Complete the Best Value Review report	

(c) Housing Revenue Account

(I) Revenue

Ref:	Description	Impact/Mitigation
(1)	**Housing Subsidy** • the key factor will be changes to the formulae. The Budget assumes increases to management and maintenance allowances and guideline rents. If the subsidy determinations are significantly different this will impact on subsidy. May be negative or positive. • The Housing and Regeneration Bill provides for Council's being able to 'opt out' of the subsidy system. This is likely to be longer term as the details have yet to be worked out.	Continue to petition DCLG and work with other Council's for a fairer more certain system. The results from the 6 authorities who have been piloting 'opt out' have thrown up a number of issues that DCLG and Treasury need to address before it becomes a realistic option. The review of the subsidy system should mean that from 2010/11 there will be more certainty as to future subsidy settlements.
(2)	**Right to Buy Sales** • the number of sales dropped significantly since 2004-05. Indications are that they are likely to remain low. The implications are that additional rental income will continue.	Monitor trend and take into account for future year budgets
(3)	**Rent Restructuring** • The DCLG has reverted to compensating the HRA for the loss of income due to the capping of rent increases. Due to the level of inflation and the rent restructuring formula, it is	Impact could be detrimental to the HRA, which would reduce the amount of revenue financing towards decent homes capital funding. Would need to raise more from asset disposal.

	likely that rent increases will exceed inflation significantly. If further caps are imposed it is not known what the level of compensation will be.	
(4)	**Gas and Electricity Prices** • the gas contract is fixed for two years, there is uncertainty as to what the increase may be in 2009-10. The electricity supply is on an annual contract; price rises could rise significantly in future years. There are implications for the HRA and tenants who are recharged for some of these costs	
(5)	**Choice Based Lettings** • Launched in Dec 2007. A review of CBL is due to report in Summer 2008. Which will include reference to any increase void times.	Monitor the void times to see if is having a detrimental effect.
(6)	**Value for Money** • Inability to demonstrate value for money improvements	Project plan to demonstrate VFM. On going benchmarking through Housemark and others. React to outcomes of benchmarking and KPMG audit reports. Establish effective SLA agreements and reduce total charges.
(7)	**Tenants** • Failure to engage with customers or live up to their expectations	New tenant participation structure and Compact launched. Greater participation by tenants (and Leaseholders). Manage expectations.

(II) Capital

Ref:	Description	Impact/Mitigation
(1)	**HRA Stock Decent Homes Strategy** • to bring the Tower Blocks, Maisonettes and Sheltered Blocks up to new design standards will require investment over and above that included for Decent Homes. Members have approved the strategy, but future funding decisions will be required once assessment and appraisals have been undertaken.	Failure to agree a long-term strategy and funding decisions will mean a piecemeal approach and not provide value for money.
(2)	**Right to Buy Sales** • the number of sales have dropped significantly over recent years. Indications are that they are likely to remain low for the foreseeable future.	The level of anticipated funding from this source is reflected in the Capital Programme. This will be under continual review.
(3)	**Decent Homes Funding** • Failure to achieve level of Capital Receipts required for funding Decent Homes	Regularly review and understand what the financial requirements are. Management plan has identified a means of funding the shortfall. Continually review the asset base and look at disposal of non-strategic assets.

Appendix H - Minimum Level of Reserves

Assessment of Oxford City Council general reserve requirements

Assessment against CiPFA's recommended factors to consider when assessing need for reserves

<u>Budget assumptions</u>

Treatment of inflation and interest rates	We build these into our base budgets We've substantially strengthened our assessment of this area as part of the MTFS process. However we do depend on over £2m income per annum from investment s to balance our budget. This is a budget that is uncertain, falls in interest rates would significantly affect our budget position.
Estimates of level and timing of capital receipts	Our capital programme has historically been heavily dependent on capital receipts. The MTFS sets out a way forward for the General Fund to plan for capital spending without this reliance. The HRA requires planned receipts as part of funding Decent Homes, but these are based on approved stock strategies and a planned programme of delivery.
Treatment of demand led pressures.	This particularly affects authorities with social services functions (which we do not have). However as an urban authority with high levels of social deprivation we face demand led pressures of: ▪ Managing homelessness budgets (2008-09 expenditure budget £3.1m) ▪ Managing local cost of benefits budgets (partly within our own management, but also dependent on external demands). The city council is also disproportionately dependent on income from fees and charges - which is highly variable. Recent budgets have increased our use of income and increased the uncertainty in this area.
Treatment of planned efficiency	Building on changes to the budget process for 2007-08, the 2008-9 budget makes this area more transparent, with action plans signed off by Heads of Service and progress monitored

savings/productivity improvements	monthly under a "traffic lights" system and reported quarterly to Finance Scrutiny Committee. However the budget still includes proposals that were assessed as high risk. It is intended that a contingency of up to 100% of the value of the high risk savings be created from the next tranche of one-off funds received. All "spend-to-save" proposals will require the preparation and approval of a business case.
Financial risks of significant new partnerships, outsourcing etc.	The city does not have many major outsourced services, instead delivering key activities in-house. Key areas that might be considered going forward include: ▪ The impact in terms of financial risk of alternative delivery models for Leisure services; ▪ Shared service options for IT and other support services;
Other funds and contingencies	We retain an insurance fund and hold sums in line with advice from our advisors (actuarial review carried out in spring 2007). We previously set aside funds in line with advice from pensions actuaries to pay for the likely increase in pension contributions in 2008. Now that the level of pensions increase has been confirmed we are able to release the provision of £1.1 million. At the end of 2006-07 we set aside a provision of £700k pending the outcome of the bus companies' appeal against the Concessionary fares scheme starting in that year. The outcome of that appeal from the DfT is currently being evaluated. We have put £1m aside for cost of single status and job evaluation. Pay modelling of outcomes will be subject to affordability testing.

<u>Financial standing and Management</u>

Overall financial standing	The evidence from Use of Resources scores is that this is an area that is steadily improving (we have scored 3 out of a possible 4 for 2006 and 2007). However our overall score (as

	measured on 31/3/07)is below that of most other district councils.
Track record in budget & financial management	Our MTFS represents a marked improvement in longer-term budget planning. The 2006 project to strengthen budget management (based on World Class Financial Management) drew on best practice from other authorities. In 2006-7 business units overspent by £700k - about 1% of controllable costs) offset by underspend in local cost of benefits.
Capacity to manage in-year budget pressures	The half-year budget review identified a potential of £1 million. Corrective action, including the introduction of establishment controls and headcount reduction targets, led to the predicted overspend reducing to £50k. Heads of Service must be able to demonstrate that both savings and headcount reduction targets are being achieved before any recruitment is approved.
Financial reporting	Our in-year financial & performance reporting has been recognised as good practice by Audit Commission. Both gross spending and income budgets are monitored by Service. Key budgets are also profiled as requested by managers. In 2007-8 we have introduced monthly (as opposed to quarterly) year-end outturn predictions. Financial and performance reported monthly to Corporate Board.
Virement and year end procedures	No longer allow automatic carry forward of underspends (so requirement for balances reduced). Compensated by no longer carrying forward overspends. Executive Board has approved that no new spend in 2008-09 can proceed until the S151 Officer is satisfied that savings are being achieved.
Insurance arrangements	Part of separate insurance fund - strong controls.

Appendix I - Treasury Management Strategy 2008-9

Executive Summary

1. **Capital Expenditure** – the projected capital expenditure for 2007/08 and 2008/09 is expected to be:

	2007/08 Estimate £000's	**2008/09 Estimate £000's**
General Fund	9,108.8	8,029.8
HRA	11,300.0	12,941.0
Total	**20,408.8**	**20,970.8**

2. **Investments** – the Council has investments of between £40 million and £50million at any one time during the year, loans are made at or close to prevailing interest rates in order to achieve our current indicators of 3 month and 7 day Libid.

3. The budget for investment income for 2007/08 is £2.5m and we are currently predicting to achieve this target, although this will be dependent on the fluctuations in the interest rates obtainable on the money market.

4. **Debt –** the Council had £11.3m of external debt as at 1st April 2007, a repayment has been made in 2007/08 reducing this debt down to an estimate of £7.7m by the end of the financial year. All of which is held at fixed rates, with varying lengths of time before maturity. The debt is wholly related to Housing with the interest met through the Housing Revenue Account subsidy mechanism. Restructuring and premature repayment of the debt have been considered, however neither option offers any advantage because any reduction in interest payable would result in an equivalent reduction in subsidy and both options would incur significant costs that would not be met from subsidy.

5. **Debt Requirement –** the Council's capital programme will be funded from resources such as government grants, capital receipts and revenue funding, although there is an element that will not be funded from these direct resources.

6. In synchronisation with the corporate plan and the long term financial plan of the organisation the Council is looking to invest future capital receipts in the aim to earn additional interest, and to use revenue resources to fund capital spend. This spend may be in full in year one or used to fund prudential borrowing over a number of years. If the later is chosen this is classified as unsupported borrowing and will therefore increase the Councils Capital Financing Requirement (CFR) each year. The table below shows our CFR for the current year and 2008/09.

	2007/08 Estimate £000's	2008/09 Estimate £000's
Housing	17,644	18,190
Non Housing	-6,776	-5,454
Total	**10,868**	**12,736**

7. Key objectives of the Prudential Code are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable.

8. The Council intends to undertake prudential borrowing over the medium term, and any interest costs associated with this will be budgeted for. As potential schemes are put forward they will be assessed on an individual basis to ascertain their inclusion with the prudential borrowing scheme. This will look at the schemes and their ability to spread the costs over a number of years, alongside the affordability, prudence and sustainability of the scheme and its funding.

9. **MRP Statement -** Draft CLG Regulations are currently issued for comment which, if implemented, will require full council to approve an MRP statement. This will need to be approved in advance of each year. Whilst the regulations will revoke current MRP requirements, councils are allowed to continue historical accounting practice. A variety of options are provided to councils to replace the existing Regulations, so long as there is a prudent provision. The timetable for implementation is very tight and so Members are asked to approve the following policy, based on the draft regulations. Should the final regulations change this statement, it will be re-submitted for approval.

10. The Council is recommended to approve the following MRP statement:

➢ For expenditure incurred before 1st April 2008 or which in the future will be supported capital expenditure, for example, borrowing funded from revenue resources, the MRP policy will be:

o Existing practice – MRP will follow the existing practice outlined in former CLG regulations

➢ From 1st April 2008 for all unsupported borrowing the MRP policy will be:

o Asset Life Method – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations.

Introduction

11. This report outlines the Council's prudential indicators for 2008/09 – 2010/11 and sets out the expected treasury operations for this period. It fulfils three key reports required by the Local Government Act 2003:

- The reporting of the prudential indicators as required by the CIPFA Prudential Code for Capital Finance in Local Authorities;

- The treasury strategy in accordance with the CIPFA code of Practice on Treasury Management;
- The investment strategy in accordance with the CLG investment guidance;

12. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). This Council adopted the Code of Practice on Treasury Management and as a result adopted a Treasury Management Policy statement (Executive Board 26th March 2002). This adoption meets the requirements of the first of the treasury prudential indicators.

13. The Constitution requires an annual strategy to be reported to Executive Board and Full Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks associated with the treasury service. A further treasury report is produced after the year-end report on actual activity for the year.

14. This report revises the indicators for 2007/08, 2008/09 and 2009/2010 and introduces new indicators for 2010/11. Each indicator reflects the outcome of the Council's underlying capital appraisal systems.

15. The Council's current Treasury Management Strategy was approved at Executive Board on 19th February 2007, and at Council on 30th April 2007. This strategy covered the period of 2007/08, and included our prudential indicators for that period.

16. The Treasury Management service is an important part of the overall financial management of the Council's affairs. Whilst the prudential indicators consider the affordability and impact of capital expenditure decisions, the treasury service covers the effective funding and financing of these decisions.

17. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service.

18. The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its treasury strategy.

Interest Rates

19. Interest rates are of particular importance to the City Council as we have between £40 million and £50 million of funds lent out (the amount varies during the year). Our loans are made at or close to prevailing interest rates.

20. Since November 2006 the Bank of England has applied a series of 0.25% rises and at July 2007 the base rate rose to 5.75%, where it has stayed until December 2007, when the Bank of England reduced the base rate to 5.50%. Current forecasts suggest that the base rate will fall further to a potential low of 4.75%.

21. Finance and Asset Management manage the council's cash investments. Assuming average cash holdings of £50 million, a quarter point increase in interest rates is worth £125k.

<u>Borrowing and Debt Strategy 2008/09 – 2010/11</u>

22. The Council had £11.3 million of external debt as at 1st April 2007, all of which is held at fixed rates, with varying lengths of time before maturity. The debt is wholly related to Housing with the interest met through the Housing Revenue Account subsidy mechanism. Restructuring and premature repayment of the debt have been considered, however neither option offers any advantage because any reduction in interest payable would result in an equivalent reduction in subsidy and both options would incur significant costs that would not be met from subsidy.

23. During 2007/08 a loan of £3 million has been repaid back to Public Works Loan Board (PWLB), and this will reduce our external debt to £7.7 million by the 31st March 2008.

24. The Council also has £2.3 million of long-term liabilities; this is an outstanding debt with South Oxfordshire District Council and is held at a variable rate, this reduces to £2.1m by 31st March 2008.

25. The Capital Financing Requirement (CFR) is the total outstanding capital expenditure that has not yet been paid for from either revenue or capital resources. It is essentially a measure of Council's underlying borrowing need. In Oxford City Council's case the CFR, as at 1st April 2007 is £7.5m and our external borrowing is £11.3m, indicating that there is no need to undertake any external borrowing in the short-term.

26. The position as at the 31st March 2008 is expected to be, our CFR at £10.9m and our borrowing to be £9.9m. This would indicate a need to borrow on the external market, in the near future if all schemes on the current capital programme are to go ahead, unless revenue or other funding sources are used.

27. The risks associated with long-term fixed interest rates are expected to be for higher rates over the medium term. The Head of Finance as S151 Officer has delegated powers to determine the need for any future borrowing and the most appropriate form of borrowing depending on the prevailing interest rates

at the time, taking into account the risks. It is likely that longer term fixed rates will be considered if borrowing levels remain relatively low.

28. There have recently been some changes to the PWLB borrowing arrangements; they are:

- Maturity brackets with a uniform length of six months
- Rates expressed in increments of one basis point
- A separate set of rates is to be applied to early repayments

This will mean we may need to consider other alternatives to PWLB for any borrowing that we may wish to undertake. Market lenders continue to offer borrowing rates at significantly lower levels than the PWLB, and with some of the advantages reduced by PWLB, market loans are becoming a more attractive borrowing proposition.

Prudential Borrowing

29. Under the prudential system, individual authorities are responsible for deciding the level of their affordable borrowing, having regard to CiPFA's code. The system is designed to encourage authorities that need, and can afford to, to borrow in order to pay for capital investment.

30. Key objectives of the Prudential Code are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable.

31. The Council intends to undertake prudential borrowing over the medium term, and any interest costs associated with this will be budgeted for. As potential schemes are put forward they will be assessed on an individual basis to ascertain their inclusion with the prudential borrowing scheme. This will look at the schemes and their ability to spread the costs over a number of years.

32. The prudential system provides a flexible framework approach within which capital assets can be procured, managed, maintained and developed. At a strategic level it allows authorities to make their own decisions about the balance to be struck between revenue intensive or capital intensive methods of procuring services. It also allows capital investment to proceed where the authority can fund it within prudent and affordable limits. As a consequence these arrangements permit 'spend to save' schemes to proceed where they are not only affordable but also prudent and sustainable.

33. Any prudential borrowing undertaken will affect the Councils prudential indicators, and when deciding on our levels of prudential borrowing we need to consider how this will affect our prudential indicators, and the Council must also have regard to:

- Affordability e.g.; implications for Council Tax
- Prudence and Sustainability e.g.: implications for external borrowing
- Value for money
- Stewardship of assets

- Service Objectives e.g.: strategic planning for the authority
- Practicality

34. A fundamental aspect of the prudential system is the ability of each local authority to determine locally the need for capital investment against the option of revenue expenditure.

35. Many local authorities have appraised potential prudential borrowing from within an 'invest to save' framework. This has been justified on the grounds that mainstream capital programming has to make decisions about the merits of alternative competing priorities whereas a sound invest to save scheme does not have an opportunity cost in terms of other capital schemes foregone to finance it.

36. Financial planning has to take into account the range of options for revenue funding and capital investment by:

- Establishing whether the authority considers it is affordable and prudent to bear the additional future revenue cost associated with additional investment, e.g.: financing and running costs
- Establishing whether this use of existing or new revenue resources to finance capital investment should have precedence over other competing needs for revenue expenditure
- Establishing the scope for capital investment to generate future revenue savings or income, taking into account the risks associated with such proposals.

37. Some examples of the types of schemes that the Council may wish to consider using prudential borrowing for are:

- Spend to save schemes, where there can be seen to be financial savings over the life of the scheme,
- Energy improvement schemes,
- Purchase of vehicles, to replace the previous leasing scheme.

Investment Strategy 2008/09 – 2010/2011

38. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure:

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed.
- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.

39. Expectations on shorter-term interest rates, on which investment decisions are based, shows a likelihood that the fall to the current level of 5.50% as

being the start of a further decline in rates, with a potential low of 4.75%. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts. It is likely that investment decisions will be made for longer periods with fixed investments rates to lock in good value and security of return if opportunities arise, subject to over riding credit counterparty security. The Head of Finance as S151 Officer has delegated powers to undertake the most appropriate form of investments depending on the prevailing interest rates at the time.

Criteria for approving counterparties

40. A counterparty list will also be maintained in compliance with the following criteria and will be reviewed on a regular basis. This will be submitted to Council for approval annually or as required. The Counterparty list contains all those banks and building societies that meet our given criteria, but many of those on the list may not be used. This criteria is separate to that which chooses Specified and Non-Specified investments as it selects which counterparties the council will choose rather than defining what its investment are. The rating criteria use the lowest common denominator method of selecting counterparties and applying limits, for example the Council will consider ratings from all rating agencies but will use the lowest rating to decide if they meet the criteria.

- Banks – the Council will use banks which have at least the following ratings
    - Fitch Short Term = F1
    - Fitch Long Term = A-
    - Moody's Short Term = P-1
    - Moody's Long Term = A3
    - S&P's Short Term = A1
    - S&P's Long Term = A-
    - Individual/Financial Strength = C
    - Support = 3
- Building Societies – the Council will use all Societies with assets in excess of £0.5billion
- Money Market Funds = AAA
- Unrated Bank Subsidiaries – the Council will use all unrated bank subsidiaries where their parent company meets the ratings above
- UK Government – including Gilts and DMO
- Local Authorities, Parish Councils etc
- Supranational institutions

The time limits for institutions on the Council's Counterparty List are as follows (these will cover both Specified and Non-Specified Investments):

	Fitch	Moody's	Standard & Poors	Money Limit	Time Limit
Banks & Building Societies					
Upper Limit Category	*F1+/AA-*	P-1/Aa3	A1+/AA-	£8.0m	>364 days
Middle Limit Category	F1/A-	P-1/A3	A-1/A-	£5.0m	<365 days
Unrated Building Societies					
Lower Limit Category	Asset base between 0.5bn and 2bn			£2.5m	183 days
Upper Limit Category	Asset base greater than 2bn			£5.0	< 365 days
Other					
Other Institution Limits	-	-	-	£8.0m	364 days

41. In the normal course of the council's cash flow operations it is expected that both Specified and Non-specified investments will be utilised for the control of liquidity as both categories allow for short-term investments.

42. The use of longer-term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the council's liquidity requirements are safeguarded. This will also be limited by the investment prudential indicator.

43. A Specified investment is one that is not more than 1year from inception to repayment, or those which could be for a longer period but where the Council has the right to be repaid within that period if it wished. Non-specified investments are any other type of investment.

44. The current counterparty list is attached at Appendix A for information, and approval.

The Expected Movement in Interest Rates

45. The general outlook for the British economy has deteriorated over the past few months due only in part to the turbulence in financial markets and the possible emergence of a credit crunch. Several particular features cloud the outlook: an expected slow-down in the economy and the possible emergence of a mild form of 'stagflation' (rising inflation alongside slow output growth); the emergence of a substantial twin deficits: (a large external payment deficit

and a substantial and worsening budget deficit); the prospect of falling house prices; dilemmas in the conduct of monetary policy, and uncertainties arising from continued financial market turbulence.

46. To date, the main areas of concern for the MPC can be itemised as follows:
    - The aggressive pricing intentions of the corporate sector
    - The persistent buoyancy of retail spending
    - The strength of money supply and credit growth
    - The apparent lessening of competitive pressure from Chinese exporters
    - The lack of spare capacity in the UK economy after 10 years of upbeat growth
    - The current rise in oil prices
    - The increased use of crops for bio-fuels
    - The increase in house prices and the rising risk of repossessions

47. Some of these factors have shown signs of responding to the tightening of policy, notably corporate pricing intentions. Either companies have achieved their planned price increases, or a weakening in domestic demand has frustrated their intentions.

48. The prospective deterioration in households' finances will combine with the shock delivered by the Northern Rock crisis to undermine consumer confidence. Retail spending growth is in danger of coming to a rapid halt and with it the main support of company pricing power.

49. Growth in the economy is likely to slow quite significantly this year, several factors are combining to weaken the growth outlook: consumers' expenditure is likely to moderate as households seek to raise their savings ratio; government expenditure is likely to be less expansionary and house prices will certainly weaken. Furthermore, while the Bank of England is likely to lower bank rates, effective interest rates for many house-holds are likely to rise for two reasons: market rates may not fall in line with official rates, and at least 1.4 million households on short-term fixed interest rate mortgages will face re-fixes at higher rates of interest. For these households, the rise in interest rates during 2006 and last year has yet to make a real impact. Generally interest rate adjustments can take up to two years to take effect.

50. The Bank of England has emphasised three factors likely to weaken growth in the coming year: a likely fall in equity prices, a squeeze on consumers' expenditure, and the delayed impact of the strengthening of sterling on the foreign exchange markets.

51. The economy is also vulnerable to the impact of the rise in oil, energy and commodity prices, continued uncertainty in financial markets and a possible credit crunch, weaker house building, and a weakening in consumer

confidence. The Financial Services Authority has also warned of difficult times ahead for lenders.

52. The Bank of England has recently argued that inflation is a serious threat in the economy.

53. CPI has been above the central 2% target for several months since late 2006 and the Bank of England currently forecast that it will remain above target for most of this year.

54. The Bank of England cut the base rate by 0.25% in December, and this was a unanimous decision of the MPC. The factors cited as influencing the MPC's decision were the uncertainties in financial markets and the prospect of a weakening economy. More generally, the Bank of England's Inflation Report issued in November suggested that, while there are inflation concerns most especially in the short run, the central forecast was that the 2% inflation target would be met on the basis of market interest rate expectations that implied two cuts of 0.25%. It is likely, therefore that there will be further cuts in interest rates over this year.

55. Interest Rate Forecasts 2007-2009

	End Period	Bank Rate		Gilt Yields	
			5-yr	20-yr	50-yr
2007	Sept	5.75	4.5	4.8	4.4
	Dec	5.50	4.4	4.5	4.3
2008	March	5.25	4.6	4.6	4.4
	June	5.00	4.7	4.7	4.5
	Sept	4.75	4.7	4.7	4.5
	Dec	4.75	4.7	4.8	4.6
2009	March	4.75	4.8	4.8	4.6

Butlers forecast

56. Medium Term Rate Forecasts (averages)

	Bank Rate	5 yr Gilt	20 yr Gilt	50 yr Gilt
2007/08	5.6	4.3	4.9	4.5
2008/09	4.8	4.7	4.8	4.6
2009/10	4.8	4.8	4.7	4.6
2010/11	5.0	4.9	4.8	4.8
2011/12	5.2	5.3	5.2	5.1

Butlers forecast

Prudential Indicators

57. The Strategy also includes the Prudential Indicators, which the authority is required to consider before determining its budget and treasury management arrangements for the new financial year. These indicators are split into two

categories the first is affordability. Our Affordability indicators are listed below:

58. **Estimates of Capital Expenditure**, split between GF and HRA, this is based on the current capital programme, but will be reviewed once the 2008/09 budget is finalised.

	2007/08 Original Estimate £000's	**2007/08 Revised Estimate £000's**	**2008/09 Estimate £000's**	**2009/10 Estimate £000's**	**2010/11 Estimate £000's**
General Fund	11,137.1	9,108.8	8,029.8	4,429.0	4,071.5
HRA	11,900.0	11,300.0	12,941.0	11,340.0	10,930.0

59. **Actual and Estimate of the ratio of financing costs to the net revenue stream**, this identifies the trend in the cost of capital against the net revenue stream and show GF and HRA separately.

General Fund	**2006/07 Actual £000's**	**2007/08 Original Estimate £000's**	**2007/08 Revised Estimate £000's**	**2008/09 Estimate £000's**	**2009/10 Estimate £000's**	**2010/11 Estimate £000's**
Interest Costs	1,292.3	1,040.8	1,034.5	1,298.8	1,361.5	1,509.9
Investment Income	-2,228.0	-2,286.0	-2,413.0	-2,425.0	-2,348.0	-2,161.2
Net Financing Cost	-935.7	-1,245.2	-1,378.5	-1,126.2	-986.5	-651.3
Revenue Stream	28,363.1	27,201.6	27,772.4	27,544.2	27,544.2	27,544.2
Ratio	-3.3%	-4.6%	-5.0%	-4.1%	-3.6%	-2.4%

Housing Revenue Account	**2006/07 Actual £000's**	**2007/08 Original Estimate £000's**	**2007/08 Revised Estimate £000's**	**2008/09 Estimate £000's**	**2009/10 Estimate £000's**	**2010/11 Estimate £000's**
Item 8 Interest	1,316.3	1,206.5	1,206.5	1,238.7	1,232.4	1,235.0
Investment Income	-86.1	-170.0	-320.0	-320.0	-320.0	-320.0
Net financing Cost	1,230.2	1,036.5	886.5	918.7	912.4	915.0
Revenue Stream	15,422.5	15,966.3	16,013.7	14,162.4	16,116.0	15,973.8
Ratio	8.0%	6.5%	5.5%	6.5%	5.7%	5.7%

60. **Estimate of the incremental impact of capital investment decisions on the Council Tax**, this shows the impact of any decisions that are made on investment through the capital programme and how this will ultimately affect the Basic Band D Council Tax.

61. The figures in the table below have been calculated by looking at those schemes that are currently uncommitted on the current capital programme and looking at the impact they will have on Council Tax. The figures in the table show the impact this spend will have on the full year Band D basic amount of Council Tax.

62. The first line of the table shows the gross impact of those capital schemes, but the Council intends to cover this funding by the sale of assets, and the use of future capital receipts, therefore this would have a nil impact on the Council Tax, which is shown in the table.

63. The Council will not enter into any uncommitted capital scheme until the sale of assets is confirmed, therefore not allowing this capital spend to have an impact on Council Tax.

64. In summary if the Council were to spend £1million on a new capital project without asset sales to finance it, this could potentially impact on Basic Band D Council Tax by £1.19.

	2007/08 Original Estimate £	**2007/08 Revised Estimate £**	**2008/09 Estimate £**	**2009/10 Estimate £**	**2010/11 Estimate £**
Capital spend impact on Council Tax Band D	10.73	8.40	10.13	7.52	7.05
Capital receipts impact on Council Tax Band D	-10.73	-8.40	-10.13	-7.52	-7.05
Overall net impact on Council Tax Band D	0.00	0.00	0.00	0.00	0.00

65. **Estimate of the incremental impact of capital investment decision on housing rents**, this shows the impact any decisions made on our capital investments will have on our weekly housing rents.

66. The figures in the table below have been calculated by looking at those schemes that are currently on the capital programme with funding resources coming from the revenue account, and looking at the impact this will have on the weekly housing rents.

67. The first line of the table shows the gross impact of those capital schemes, but the Council also intends to cover this funding by the sale of assets, and the use of available capital receipts, therefore this would have a nil impact on the Weekly housing rents, which is shown in the table.

68. The Council will not enter into any uncommitted capital scheme until the sale of assets is confirmed, therefore not allowing this capital spend to have an impact on the housing rents.

69. The key driver for setting our housing rents is the rent formula from Central Government, capital spend should not affect the rent we charge, therefore the net impact of capital spend will be zero.

70. For every £1 million that the Council spends on new capital projects without asset sales to finance it will have an impact of £0.13 per week on rents.

	2007/08 Original Estimate £	**2007/08 Revised Estimate £**	**2008/09 Estimate £**	**2009/10 Estimate £**	**2010/11 Estimate £**
Capital spend impact on Weekly Housing Rents	1.29	0.30	0.10	0.10	0.10
Capital receipts impact on Weekly Housing Rents	-1.29	-0.30	-0.10	-0.10	-0.10
Overall net impact on Weekly Housing Rents	0.00	0.00	0.00	0.00	0.00

71. Dwelling rents are increased in line with Government rent restructuring policy. The value of a property influences the level of rent charged.

72. Estimate of capital financing requirement (CFR), this is the total outstanding capital expenditure that has not yet been paid for from either capital or revenue resources. It is essentially a measure of the Council's underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR.

	2006/07 Actual £000's	**2007/08 Original Estimate £000's**	**2007/08 Revised Estimate £000's**	**2008/09 Estimate £000's**	**2009/10 Estimate £000's**	**2010/11 Estimate £000's**
Housing	17,098	17,644	17,644	18,190	18,736	19,282
Non Housing	-9,581	-6,894	-6,776	-5,454	-4,570	-4,154
Total	**7,517**	**10,750**	**10,868**	**12,736**	**14,166**	**15,128**

73. Authorised limit for external debt, this represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external debt, which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

	2007/08 Original Estimate £000's	2007/08 Revised Estimate £000's	2008/09 Estimate £000's	2009/10 Estimate £000's	2010/11 Estimate £000's
Borrowing	25,000	20,000	20,000	20,000	20,000
Other Long Term Liabilities	4,000	2,400	2,200	1,900	1,700
Total	**29,000**	**22,400**	**22,200**	**21,900**	**21,700**

74. Operational boundary for external debt, this is based on the expected maximum external debt during the course of the year, it is not a limit, actual external debt can vary around this boundary for short times during the year.

	2007/08 Original Estimate £000's	2007/08 Revised Estimate £000's	2008/09 Estimate £000's	2009/10 Estimate £000's	2010/11 Estimate £000's
Borrowing	20,000	11,500	13,500	15,000	17,000
Other Long Term Liabilities	3,000	2,400	2,200	1,900	1,700
Total	**23,000**	**13,900**	**16,000**	**17,800**	**19,200**

75. Net Borrowing v Capital Financing Requirement (CFR), the Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2008/09 and the next two financial years. This allows some flexibility for limited early borrowing for future years.

	2007/08 Original Estimate £000's	2007/08 Revised Estimate £000's	2008/09 Estimate £000's	2009/10 Estimate £000's	2010/11 Estimate £000's
Total Debt 31 March	9,857	9,857	10,937	8,144	6,752
Investments	35,000	40,000	45,000	45,000	45,000
Net Borrowing	-25,143	-30,143	-34,063	-36,856	-38,248
CFR	10,750	10,868	12,736	14,166	15,128

76. **Compliance with the CIPFA Code of Practice for Treasury Management in the Public Sector,** the Council can confirm that it has complied with this code throughout 2007/08.

77. **Upper limit on fixed and variable interest rate borrowing and investments,** the purpose of this and the following two prudential indicators is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. This indicator identifies the maximum limit for fixed interest rates based upon the debt position net of investments.

	2007/08 Original Estimate %	2007/08 Revised Estimate %	2008/09 Estimate %	2009/10 Estimate %	2010/11 Estimate %
Upper limit on fixed rate borrowing and investments	100	100	100	100	100
Upper limit on variable rate borrowing and investments	100	100	100	100	100
Lower limit on fixed rate borrowing and investments	25	25	25	25	25
Lower limit on variable rate borrowing and investments	20	20	20	20	20

78. **Upper and Lower limit for the maturity structure of borrowing,** these are used to reduce the Council's exposure to large fixed rate sums falling due for repayment at the same time.

	2007/08 Revised Estimate Upper %	2007/08 Revised Estimate Lower %	2008/09 Estimate Upper %	2008/09 Estimate Lower %	2009/10 Estimate Upper %	2009/10 Estimate Lower %	2010/11 Estimate Upper %	2010/11 Estimate Lower %
Under 12 months	30	0	30	0	30	0	30	0
12 months to 2 yrs	30	0	30	0	30	0	30	0
2 yrs to 5 yrs	80	0	50	0	50	0	50	0
5 yrs to 10 yrs	50	0	100	0	100	0	100	0
10 yrs and above	50	0	100	0	100	0	100	0

79. **Upper limit for principle sums invested for periods longer than 364 days,** this indicator is used to reduce the need for early sale of an investment, and is based on the availability of funds after each year-end.

	2007/08 Original Estimate £m	**2007/08 Revised Estimate £m**	**2008/09 Estimate £m**	**2009/10 Estimate £m**	**2010/11 Estimate £m**
Investments for periods longer than 364 days	8	8	8	8	8

Appendix J: Budget Assumptions

The main assumptions included in the budget forecast are:-

Ref.	Assumption
(1)	Base – 2008-09 Approved Budget,.
(2)	General inflation on expenditure – included at 4.3% (tbc)
(3)	Employee budgets include: - cost of pay award allowance 2.5% (3.5% for 2009-10) - actual incremental progression £varies by Service (average of 1% estimated for overall impact) Managers will be advised of any adjustments to pay budgets for the purposes of the 2009-10 budget process.
(4)	Employee budgets – No turnover saving.
(5)	Service Level Agreements – will be recalculated based on budget decisions.
(6)	Property Rental income – based on projections from the portfolio, reflecting actual incidence of rent reviews.
(7)	Income and Charges – general assumption of 4.3% built into base, but reviews of all charges required by committees.
(8)	Interest rate – based on latest market projections 5.5% for 2009-10 then 4.75% for subsequent years
(9)	Major contracts and agreements, inflation applied at specified inflation indices in the contract or agreement.
(10)	Grants and Subsidies are analysed for sensitivity based on possible range of implications dependent on the Government's approach to the withdrawal of protection arrangements.

Appendix K: Capital Strategy

Capital Strategy 2008/09

1. Introduction to the Capital Strategy.

This Capital Strategy has been developed as a key policy document that determines the Council's approach to capital investment. Its linkages with the Corporate Plan are clear in that Capital investment will support the aims and objectives.

The main objectives of the Capital Strategy are –

- To ensure the capital investment and the management of resources contribute fully to the achievement of the Council corporate objectives and Priorities.
- To provide a framework for the development of the Council Asset Management Plan.
- To ensure the efficient use of limited resources and assets.
- To provide a framework for the management, monitoring and evaluating of the Capital Programme.
- To target capital resources effectively to neighbourhoods of highest needs.
- To Ensure the Councils new investments are prioritised.
- To ensure resources are prioritised for schemes that are essential maintenance to assets.

The efficient and effective use of capital resources, including the sound asset management, is fundamental to the Council achieving its long and medium term aims and objectives.

2. The Council Vision & aims.

The corporate plan sets out six strategic priorities, which have been agreed by Oxford City Council. The City Council aspires to be a World Class council, to achieve this we will be driving an ambitious corporate change Programme. This includes:

- Building on the strengths of the city's knowledge and high tech economy and enhancing the quality of city's retail and cultural offerings.
- Improving access to affordable housing.
- Challenging inequality and improving the health of our citizens.
- Making our contributions to tackling climate change.
- Creating a high quality environment for residents and visitors.
- Building strong and cohesive communities and low levels of crime.

3. Approach to prioritising investment

The Capital Strategy has been prepared to prioritise investment with the key corporate and service objectives contained within the Councils corporate plan and Strategies.
The Capital Strategy then determines the priorities of the projects and resources that will be used to fund them.

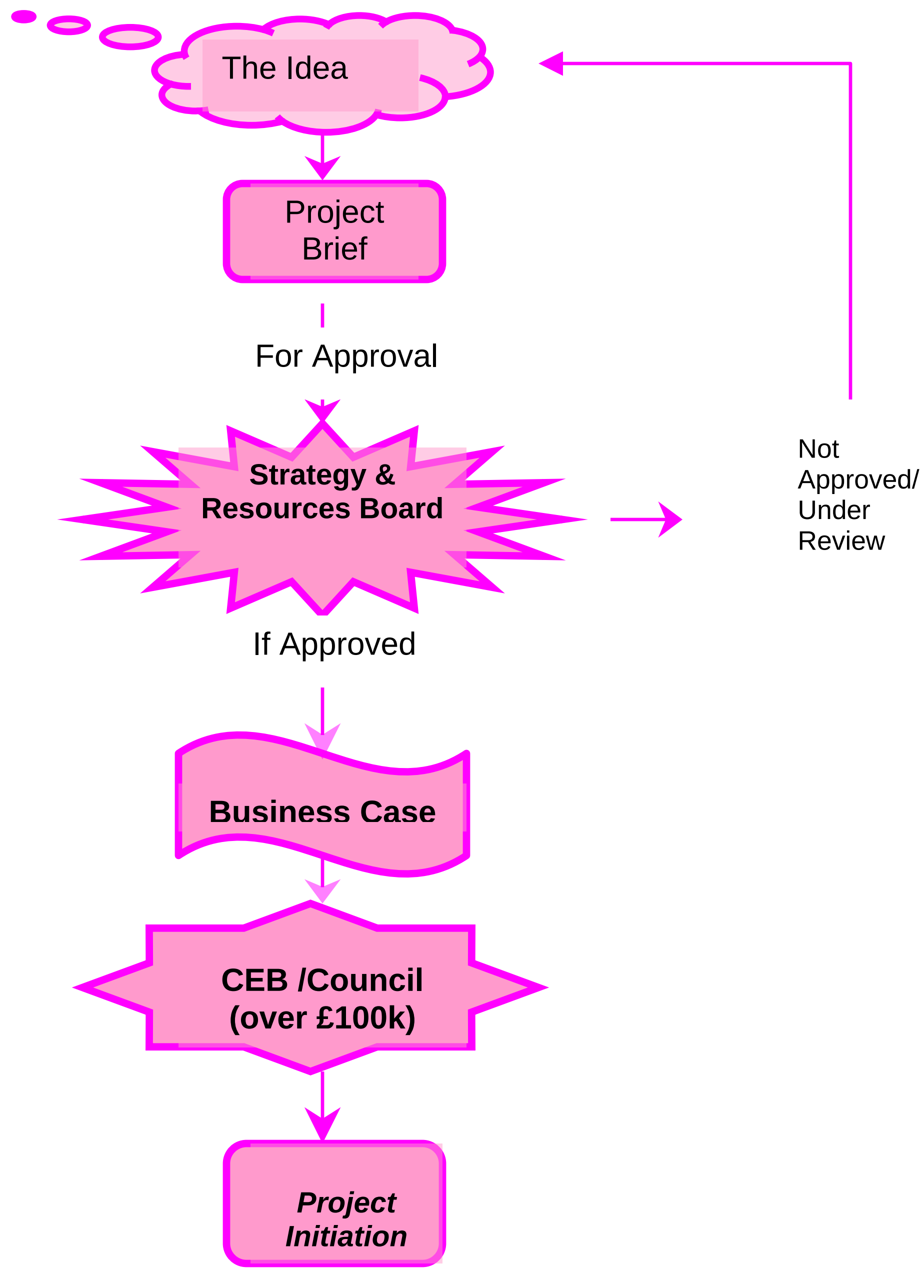
As part of this process, capital proposals are invited from service providers and various options are determined and appraised. There are key stages (see Procedure Flowchart page 4) to our approach to the prioritisation of investment in capital projects and these form part of the councils corporate planning and review process-

- Preparation of a Project Brief
    - This includes –
        - The rationale to why the project is required.
        - What is the present position.
        - What will the project change or achieve.
        - What Benefit or improvements will the project produce.
        - What the project needs to achieve –Objectives, Scope, Deliverables, Desired outcomes, Constraints.
        - Initial business case showing very concise & objective summary o f the benefits of undertaking the project.
        - Demonstrate financial savings, overheads, speedier or higher quality service, tangible benefits that will justify the project.
        - What other possible options are available.
        - What is the approximate cost of resource & hardware required to complete the task.
- The Project Brief will then be taken to Strategy & Resources Board for Approval.
- Once Approved a Business Case will need to be written.
    - This includes –
        - Background information (from Project Brief).
        - What the project needs to achieve –Objectives, Scope, Deliverables, Desired outcomes, Constraints.
        - Initial Business Case (from Project Brief).
        - Risks and Uncertainties –What events might arise that would jeopardise one or more objectives.
        - Timescales –Milestones only.
        - Acceptance Criteria – Essential elements that must be achieved in order for the project to be accepted as complete.
        - Costs – Capital, Funding, Revenue, Expected Savings, and Internal Staff over the next 4 years.
        - Interfaces – What other projects or tasks does this project connect with overlap or depend upon.

- Whole Life Cost / Sustainability – What the likely environmental & impacts might be.

- The Business Case will then be taken to CEB, or if the total cost of the project is over £100k Full Council, for Approval to spend.
- Once approved by either CEB or Council then the project can continue, and a Project Initiation Document (See Appendix C) will need to be completed to monitor the project.
- All approved schemes are subject to available resources. In order to evaluate/prioritise schemes there are a list of Questions (See Appendix D) for discussion at the relevant board.

Procedure Flowchart



4. Investment and funding

There are many ways to fund the capital programme. In the past the council has relied heavily on Capital Receipts.

The City Council does not depend solely on funding its Capital Programme through Capital Receipts; we also receive many contributions from External Organisations. The City Council owns many assets, and if these assets are deemed surplus to requirements they maybe sold and used as Capital Receipts to fund future Capital projects. The Council has to maintain a balance between selling assets for Capital Receipts and keeping them to generate income from rents.

A signification amount of schemes are funded by the S106 contributions from developers. Developer contributions are sought to mitigate the impact of development and overcome what would otherwise be a potential reason to refuse a planning application. Contributions should only be sought where they are:

- Relevant to planning (i.e. transport, open space, housing etc) - it is not legitimate for unacceptable development to be permitted because of benefits or inducements offered by the developer which are not necessary to make the development acceptable in planning terms
- Necessary to make the proposed development acceptable in planning terms – i.e. in order to bring a development in line with the objectives of sustainable development as articulated through the relevant local, regional or national planning policies
- Directly related to the proposed development – for example, there should be a functional or geographical link between the development and the item being provided as part of the developer’s contribution.
- Fairly and reasonably related in scale and kind to the proposed development; and reasonable in all other respects – for example, developers may reasonably be expected to pay for or contribute to the cost of all, or that part of, additional infrastructure provision which would not be have been necessary but for their development.

Depending on the development contributions can be taken towards: Affordable Housing, Community Facilities, Indoor Sports Facilities, Public Open Space, Environmental Improvements, Public Art, Highway measures (inclusive of Park & Ride, Pedestrian measures, Cycle Facilities etc), Education, Libraries, Waste Recycling Centres, Youth Services, Museum Resource Centre, Day Care Provision for Adults.

The legislative and regulatory changes introduced from 1 April 2004 have resulted in significant changes to the funding regime for Capital.

This has seen the previous capital controls, principally under Part IV of the Local Government and Housing Act 1989, replaced; with a move away from the use of a system of credit approvals to each authority as a means of limiting the power to borrow, to a more flexible system based more around affordability.

The Main factors are:

Prudential Framework

The local government Act 2003 introduced changes to the financing of capital expenditure, including the abolition of credit approvals and the new prudential capital finance system, with effect from 1 April 2004.

The prudential system is based on principles rather than prescription. The purpose of this guidance is to assist local authorities to make their own judgements about how the code may be most effectively implemented to meet their own local circumstances.

The code sets out the minimum prudential indicators necessary to demonstrate the legislative requirement that the authority's financial plans are affordable. When setting these indicators must have regard to the following:

- Affordability
- Prudence and sustainability
- Value for money
- Stewardship of assets
- Service objectives
- Practicality.

Prudential Borrowing

Under the Prudential Framework local authorities are now free to make their own judgements as to whether new borrowing is affordable and prudent, subject to a duty to follow agreed professional principles.

These professional principles are contained within the prudential code, which was developed specifically for the purpose by the Chartered Institute of public Finance and Accountancy (CIPFA).

The main advantages offered through borrowing under the Prudential Framework would appear to be in terms of:

- Rescheduling capital expenditure – where existing levels of revenue used to directly fund capital schemes are used instead to meet costs of borrowing, allowing a significant initial amount to be spent. The downside of this is that it is primarily a one off move; bringing forward expenditure or facilitating a single expenditure on a significantly higher level than could otherwise be afforded.

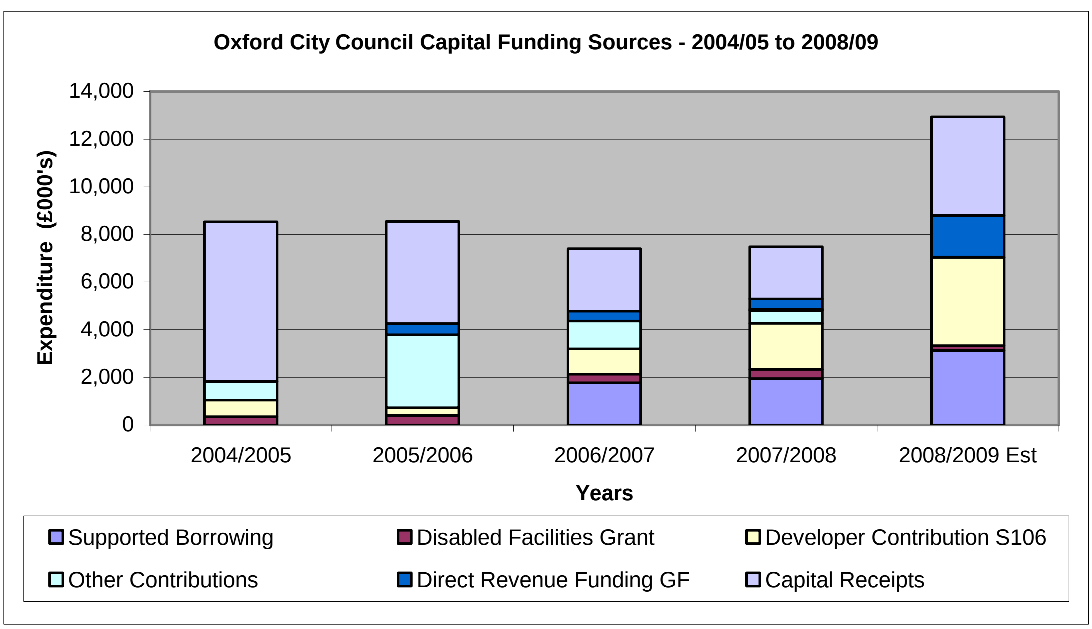
- Spend to save schemes – where the capital investment achieves revenue savings, which could wholly or largely meet the ongoing revenue costs associated with the level of borrowing required.

We also funded schemes from –

- Revenue Contributions for Maintenance backlog, Area Committees, Supported Borrowing for Vehicles, and any overspends on Developer Contribution schemes.
- The Lottery, the building and development of Barton Swimming Pool was partly funded by the Sports Lottery
- Housing Associations, such as the Oxford Citizens Housing Association (OCHA) for redevelopment of housing sites in order to provide more affordable housing.
- Government Grants, such as the Growth Point Grant for the West End Partnership and Bonn Square development, and GOSE grant for upgrading insulation in private sector homes.
- Disabled Facilities Grant, this is a Government Grant for a national strategy for housing adaptations to enable children and adults with disabilities to continue to live independently in their own homes.
- Major Repairs Allowance, this represents the capital cost of keeping stock in its current condition. It is a new subsidy that can be spent on any Capital expenditure on HRA assets.

5. Summary of funding

The graph below illustrates the trend in terms of sources of funding for the Council General Fund Capital spending -



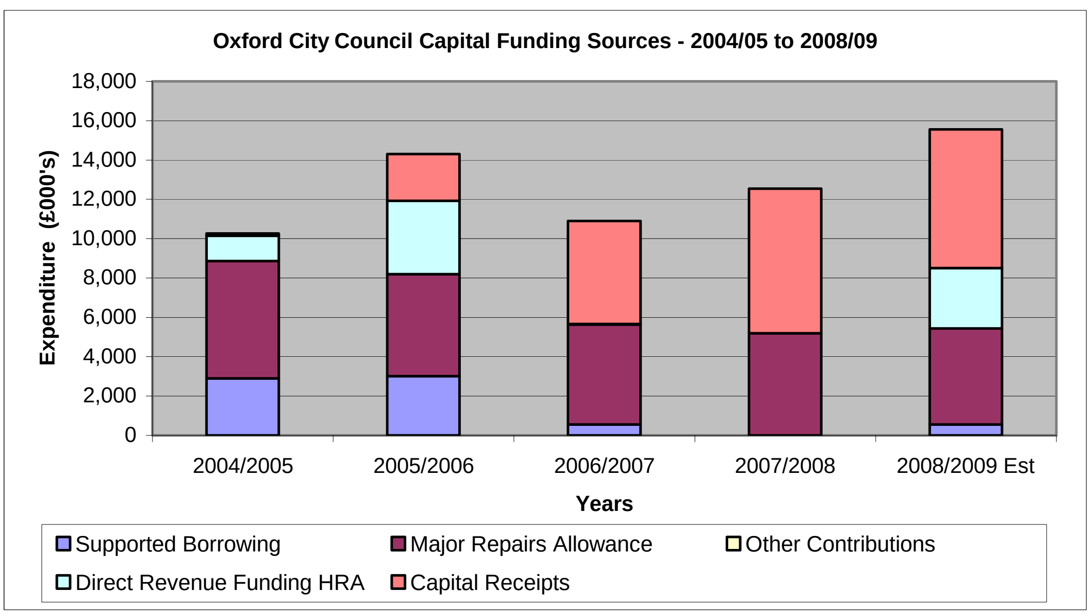
This demonstrates the funding for Capital has become more evenly spread between funding sources over the last 5 years. Funding from Revenue has increased as expected due to the West End Development, resulting in less reliance on schemes funded solely from Capital Receipts, which has gradually decreased. Developer Contribution S106 schemes have increased over the past five years. Supported Borrowing has increased with the Introduction of Recycling in the City and MT Vehicle replacement.

Capital Schemes are shown at gross cost, with all funding sources shown. This enables more effective targeting and monitoring of external funding for Capital.

HRA Funding

Most of the funding is for the Decent Homes element of the HRA Capital programme. As supported borrowing has declined significantly since 2005/06 the amount of funding from capital receipts has increased. Funding for the HRA capital programme is now mainly from capital receipts and the major repairs allowance.

When the decent homes target is met in 2010 the HRA capital programme will reduce to between £6.5m and £7.5m. Funding will mainly be from the Major Repairs Allowance with Direct Revenue Funding and Capital Receipts making up any shortfall.



6. Objectives for use of capital resources

The major objectives for the use of capital resources that support the council's vision, values and priorities are as follows –

- To maintain the councils assets and ensure the health and safety of the public and staff
- To maximise capital resources to meet council priorities.
- To demonstrate value for money.
- To work in partnership with other bodies on capital projects to minimise the impact on the councils financial position.
- To maximise 'Invest to Save' opportunities.

7. Performance monitoring & evaluation

The Capital programme, including both internally and externally funded schemes, is kept under review, and reconciled at the end of each month. Monthly monitoring meetings are held between Responsible Officers and Finance for the larger service area and all lead officers are kept informed monthly in order to keep the programme up to date and accurate.

All lead officers receive Reports directly from the Council Financial System informing them of all Income and expenditure relating to each individual capital scheme currently running.

The Capital programme is published on a monthly basis in the Financial and Performance information pack, and is reviewed and discussed by Directors and Finance officers in a monthly performance Board.

The City council are in the process of implementing a 'Post Completion Audits' of each scheme, in order to review how the project achieved the Corporate Objectives and to improve future performance.

An Asset Management and Capital Board will also be set up shortly. The Boards key purpose is to –

- Develop the Asset Management Strategy.
- Explore asset development opportunities, priorities and resourcing.
- Prepare capital and maintenance bids assessment
- Capital Funding
- Capital Spend Monitoring (high level)
- Staff & Office accommodation strategy
- Maintenance Backlog / Requirements
- Prioritisation of existing maintenance Indicators

These meetings will be held on a monthly basis and the Directors, Finance & Property Heads of Service and Building and Asset Mangers will attend.

8. Conclusion

Oxford City Council is committed to managing its available resources effectively to deliver its priorities. Prioritisation between competing demands is essential in order to utilise limited funding more effectively. Robust procedures and processes are in place to ensure this happens for the benefit of our customers and the community.

Appendix L: Key contacts

Topic	Contact	Tel	E-mail
General	Peter Sloman	2400	psloman@oxford.gov.uk
	Penny Gardner	2708	pgardner@oxford.gov.uk
	Sarah Fogden	2708	sfogden@oxford.gov.uk
	Peter McQuitty	2780	pmcquitty@oxford.gov.uk
VAT and treasury	Andy Brooks	2763	abrooks@oxford.gov.uk
Capital	Emma Burson	2571	eburson@oxford.gov.uk
Housing	Dave Higgins	2470	dhiggins@oxford.gov.uk

Appendix M: General Fund and HRA budgets 2008-09

	Gross Expenditure £	Gross Income £	Net Controllable Expenditure £	SLAs And Capital Charges £	Total Budget £
Services					
Policy, Performance & Communicatio	1,024,535	(6,500)	1,018,035	(330,885)	687,150
Executive Support	644,886	0	644,886	(687,361)	(42,475)
Strategic Procurement & Shared Serv	170,689	(8,000)	162,689	(149,689)	13,000
Chief Executive	**1,840,110**	**(14,500)**	**1,825,610**	**(1,167,935)**	**657,675**
City Development	5,637,641	(3,022,188)	2,615,453	1,477,185	4,092,638
Environmental Development	2,871,415	(931,289)	1,940,126	498,951	2,439,077
Community Housing & Development	11,379,195	(3,049,122)	8,330,073	1,523,564	9,853,637
Property & Facilities Management	3,107,444	(6,570,180)	(3,462,736)	(1,280,582)	(4,743,318)
City Regeneration	**22,995,695**	**(13,572,779)**	**9,422,916**	**2,219,118**	**11,642,034**
Customer Services	3,989,780	(1,553,086)	2,436,694	527,963	2,964,657
City Leisure	5,528,652	(3,309,795)	2,218,857	1,804,586	4,023,443
City Works	22,471,489	(17,092,266)	5,379,223	3,923,260	9,302,483
City Services	**31,989,921**	**(21,955,147)**	**10,034,774**	**6,255,809**	**16,290,583**
Business Transformation	1,800,915	(224,413)	1,576,502	(1,645,037)	(68,535)
Finance	4,091,401	(2,065)	4,089,336	(1,707,115)	2,382,221
Human Resources	2,130,341	(12,117)	2,118,224	(1,286,568)	831,656
Legal & Democratic Services	2,021,830	(80,200)	1,941,630	(1,738,321)	203,309
Support Services	**10,044,487**	**(318,795)**	**9,725,692**	**(6,377,041)**	**3,348,651**
Total Service Expenditure	**66,870,213**	**(35,861,221)**	**31,008,992**	**929,951**	**31,938,943**

Corporate Accounts	
Local Cost Of Benefits	(100,000)
Corporate & Democratice Core	3,597,491
Asset Management Revenue Account	(1,262,952)
Transfer To Capital Reserve	(5,353,019)
Investment Income	(2,428,922)
Interest Payable	1,441,690
Pension Increase (1.3%)	567,000
Total Expenditure	**28,400,231**
Funding	
External Funding (2.15% per annum)	16,365,804
Council Tax (4% increase)	11,551,927
Less assumed parish precept (4% increase)	(167,500)
Assumed movement in balances in base budget	750,000
Collection Fund deficit	(100,000)
Total Funding Available	**28,400,231**
(Surplus)/Deficit for year	**0**

HOUSING REVENUE ACCOUNT BUDGET 2008-09

Oxford City Homes

	Service Description	Approved Budget for 2008-09
INCOME		
	Dwellings - Rent	(29,851,599)
	Service Charges	(692,333)
	Shops/Garages/Furn./Other Rent	(1,897,690)
	Interest On Balances	(320,000)
	Contracting	(13,069,686)
	Fees/Other	(1,225,700)
	National Subsidy Payment	15,689,176
	Item 8 Interest Payable	1,238,651
	Net Income	**(30,129,181)**
EXPENDITURE		
Tenancy Services		
	Local Housing Management	1,151,575
	Rent/Income Collection	907,879
	Tenant's Participation	272,854
	Tower Blocks And Flats	542,849
	Caretaking Services	641,981
	Furnished Tenancies	383,869
	Contact Centre	523,914
Contracting Prime Costs		10,712,556
Repairs Service		
	Day To Day Responsive Repairs	2,790,232
	Planned Maintenance	4,583,852
	Operational Management	2,178,915
Overheads		
	Management/Infrastructure	4,427,686
	Major Projects/Policy/Technical	738,226
Depreciation		7,232,232
	Total OCH Expenditure	**37,088,620**
Net Cost - OCH		**6,959,439**
Other Costs and Appropriations		
	Asset Management Revenue Account (AMRA)	(7,232,232)
	Corporate & Democratic Core, Pension & Retirement Costs	219,763
	Appropriations - HRA	42,935
	Job Evaluation	215,280
	Pension Increase Not Allocated Out	224,802
	Total Other Costs & Appropriations	**(6,529,452)**
Total HRA Surpuls -/Deficit for 2008/09		**429,987**
	One off Savings/ Contributions	(1,259,987)
	Contribution to Direct Revenue Funding	(830,000)

Appendix N: General Fund and HRA Projected Balances - June 2008

	General Fund	HRA
Balances as at 31 March 2008	**(6,975,956)**	**(3,965,000)**
Proposed carry forwards (including Area Committees)	324,259	705,000
Balances used in 2008/09 budget (HRA to offset one-off impact of 2008-09 subsidy)	748,000	429,987
Transfer to Capital Financing Reserve		830,013
Reinstatement of 2008-09 Budget for "high risk" savings proposals	523,500	
Management Restructure Costs (balance of £750k after spend of £403k)	347,000	
Transformational Projects	900,000	
Community Priorities approved 30.6.08	590,000	
Projected balances at 31 March 2009	**(3,543,197)**	**(2,000,000)**
Community Priorities approved 30.6.08	245,000	
Balances used/ (returned) in 2008/09 budget		(830,000)
Transfer to Capital Financing Reserve		830,000
Projected balances as at 31 March 2010	**(3,298,197)**	**(2,000,000)**
Community Priorities approved 30.6.08	145,000	
Balances used/ (returned) in 2008/09 budget		(830,000)
Transfer to Capital Financing Reserve		830,000
Projected balances as at 31 March 2011	**(3,153,197)**	**(2,000,000)**
Recommended minimum level of balances	(3,000,000)	(2,000,000)