Appendix 1

Proposed
MEDIUM TERM FINANCIAL STRATEGY
2009/10 to 2013/14

CONTEXT

1. The Medium Term Strategy (MTFS) is the Council's key financial planning document. It is driven by our Corporate Plan and the four strategic priorities which lie at the heart of it. These strategic priorities are aligned with the District's ambitions as set out in the Community Plan and associated Medium-Term Strategies. They underpin the decisions Councillors take about services and funds.

2. The Council's strategic priorities are:

   Cherwell, A District of Opportunity;
   A Safe and Healthy Cherwell;
   A Cleaner, Greener Cherwell;
   Cherwell, An Accessible, Value for Money Council.

3. The first three strategic priorities derive from the seven Medium-Term Strategies in which the Council is the lead partner; the fourth links to the ambition that all the District's communities will benefit from the delivery of the Community Plan.

4. The Cherwell Community Plan is currently being refreshed by the Local Strategic Partnership. Changes to this will affect our Corporate Plan and therefore this MTFS. The implications of these will be accommodated as part of a programmed review.

5. The updated Local Area Agreement (LAA), which comes into effect from 1 April, lays out the improvement that partners across Oxfordshire aim to achieve against 35 local priorities. Those improvement targets to which we contribute are integrated into our service planning processes for 2009/10 and 2010/11.

CURRENT FINANCIAL POSITION

6. The Council is in a very sound financial position; it has cash balances of £111m, usable capital receipts of £85m and fixed assets of £86m.
7. The cash balances of £111m, include £12m held as earmarked reserves, most of which are invested in long-term marketable securities through fund managers and by the Council's in-house team.
8. The useable capital receipts of £85m have been accumulated over a number of years from the disposal of assets, of which the largest single element has been the housing stock through voluntary transfers and right-to-buy sales. Capital receipts can only be applied against capital expenditure and cannot be used to help defray the day to day running costs of the Council.
9. Fixed assets include land and buildings used in the delivery of the Council's services (£53m), properties held for the investment income they yield rather than direct

service delivery (£27m) and vehicles, plant and equipment used in service delivery (£6m).

10. The council tax for 2009-10 is £123.50 for a band D property. This is below the level of council tax that might be expected for this type of authority, based upon figures used previously by the Government in calculating grant distribution.

11. The Council's finances have been affected by the economic recession. On the expenditure side, for example, the rise in fuel prices in mid 2008 added significantly to the Council's costs, although this levelled off late in the year. In terms of income, the Council has seen its investment income reduced significantly following the dramatic fall in interest rates and there is the potential loss of capital and interest following the failure of the Glitnir Bank in Iceland. The Council is one of over 120 local authorities to have invested in Icelandic banks. Planning fee income and land charges fees have also reduced.

12. In common with most employing organisations, whether in the public, private or voluntary sector, the Council does show a pension fund liability. This currently stands at £27.9m, falling due over a period of more than thirty years, but does fluctuate as market conditions change and actuarial assumptions are altered. Recent changes to the legislation should reduce the pressure on the pension fund and the Council's own contributions are regularly reviewed to ensure that it can meet its commitments.

13. The financial forecasts prepared as we set the 2009/10 budget showed shortfalls of £1.9m and £2.1m for the financial years 2010/11 and 2011/12. These figures now stand at £1.4m and £0.8m respectively. These shortfalls are due to the continuing lack of appropriate levels of Government funding, rising demand for Council services and the significant reduction in interest earned on the Council's investments following the dramatic fall in interest rates in late 2008.

DEMOGRAPHIC FACTORS

14. Demographic factors affect the Council's planning in a number of 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 consequently the total amount raised from this source
- The characteristics of both population and households have implications for the type and nature of the services we provide
- Changes in population and households affect the demand for our services

15. Cherwell's population increased by almost 12% between 1991 and 2001 and has increased by a further 4.5% since. Growth predictions of a further 8% by 2016 and a cumulative 15.6% by 2026 are significantly higher than regional and national rates. Most of the recent growth has been in Banbury and Bicester and this will continue. Bicester's population is projected to grow by 13.8% between 2001 and 2016.

16. The Regional Spatial Strategy (South East Plan) to 2026 directs further, substantial, housing growth into the District (13,400 homes / average completion rate of approximately 700 per annum). It is also likely that the South East Plan will be

subject to early review, with additional growth requirements arising for Cherwell. Those new growth requirements may partly result from a national level decision designating Cherwell as an Eco Town location. This level of new housing development will need to be matched by local job growth and economic development. Overall there will be a significant impact on demand for many of the services delivered by the Council. There are some particular, and more immediate, impacts on the resources required for the Council's work as Local Planning Authority, and for partnership working on infrastructure planning. Many wider service impacts will arise in the medium and longer-term.

17. Government funding and developer contributions through planning agreements and obligations will assist with the provision of the required infrastructure. However this will not cover the full local costs of capital investment, and will make very little contribution to ongoing revenue expenditure arising from both resident population growth and pressures from people in neighbouring districts using our services.

18. The Government's decision on the Eco Towns programme and the Council's own Local Development Framework will determine plans for growth in the District. These plans will be taken into account in future reviews of the MTFS. Work will be commissioned to model the income and expenditure effects of the projected level of growth. The MTFS will be updated to reflect the latest information on development progress and our assessment of service impacts.

19. While the main impacts from the next phase of growth had been expected to start materialising in 2010/11, the current economic climate is slowing severely the sale of houses and housebuilding, so growth pressures may ease in the short term. But the recent decline in planning applications brings a significant immediate budget pressure in reduced planning fee income. This gives rise to a service and financial planning challenge around how to maintain organisational capacity (staff and skills) so that the Council is well prepared when the workloads recover. This will be a key area for development in future MTFS iterations and represents an important area of potential risk for the Council.

TREASURY MANAGEMENT

20. The Council achieved debt-free status in March 2003, and has a current policy of retaining this position. This has significant implications in terms of both revenue and capital.

21. The move to a debt-free position provided significant improvements in the projected net interest position for the General Fund and these are reflected in the MTFS. In addition, it provided 100% usability of housing Right-to-Buy receipts and added flexibility arising from the proceeds from the transfer of the Council's housing stock in March 2004.

22. With the introduction from April 2004 of the Prudential Framework for capital, the Council benefited from transitional arrangements for debt-free authorities (under regulation 21). The benefits from such arrangements expired in 2006/2007.

23. It has to date been to the Council's advantage to remain debt-free. However, in light of our declining capital base, our reducing but continuing dependence on investment

income to support revenue funding, and our commitment to invest in the community, we need flexibility in the future.

24. Interest rate changes are a significant factor for the Council, as an increase or decrease of 0.25% in rates would have an estimated impact of around £184k on investment receipts in 2009/10. The Bank of England's Monetary Policy Committee has cut rates to the current unprecedented levels of 0.5% as concerns over the economy and the credit crunch continue to impact.

25. Inflation provides for further uncertainty. The rate for CPI has been above the target level of 2.0% since May 2006 and the increase to 4.4% in July 2008 represented a record high since the series began. This added short-term revenue pressures particularly in relation to fuel costs which continued to rise faster than any other element. Since November 2008 inflation has dropped rapidly as food and fuel prices have eased and there has been a significant drop in economic activity.

FINANCIAL PROJECTIONS - REVENUE

26. The key aim of the MTFS is to develop a series of financial projections to determine the achievability and sustainability of the financial plans which are required to deliver the Council's strategic priorities and future ambitions for the District.

27. The key assumptions for the preparation of these projections are shown in Appendix A.

28. The net level of ongoing unavoidable spending pressures, at £0.3m for 2009/10, is much lower than in previous years. This, coupled with significant reductions in the Council's cost base has provided the Council with time to address the significant challenges in this MTFS for the years 2010/11 and 2011/12. The projected shortfall figure of £1.4m in 2010/11 can be almost wholly attributed to the residual dependency on investment income.

29. The projections have been constructed to include £564k of specific risk provision for 2009/10 and earmarked reserves relating to interest rate impact and managing during an economic downturn in 2009/10 and 2010/11.

FINANCIAL PROJECTIONS – GOVERNMENT FUNDING

30. A big issue in relation to future funding is the level of Government grant which the Council will be entitled to. Although this has been set for the period up to and including 2010/11, future settlements are critical to effective longer-term financial planning and to ensure real financial sustainability.

31. The Government's spending plans include increased investment in services which are not provided by District Councils and assume ongoing efficiencies of 3% per annum in cash terms. Cherwell's Government funding is therefore unlikely to increase significantly during the years of this Strategy and it assumes a 3% p.a. increase in 2010/11 and 2% p.a thereafter. These factors, combined with the gearing

effect which disproportionately places any extra burden on the council tax, make it increasingly difficult to balance the Council's budget each year while keeping council tax increases to an acceptable level.

32. The Government operates a system of protection to handle significant changes for individual authorities. The current 3-year settlement confirmed the 'Floor' (minimum level increase) for District Councils in 2008/09 at 1.0%, compared with 2.7% for 2007/08. The 'Floor' level for District Councils for both 2009/10 and 2010/11 is just 0.5%. This suggests a difficult period for the Council.

33. The impact of the 2008/09 settlement for Cherwell is shown below:

2007/08 Final	£9,947,783
2008/09 Final	£10,310,045
2009/10 Final	£10,610,610
2010/11 Provisional	£10,939,539

34. CSR2007 has included an assumption of at least 3% efficiencies per annum (measured cumulatively) to 2010/11. Our performance will be measured using the new national indicator on efficiency (NI179).

FINANCIAL PROJECTIONS – CAPITAL

35. The projected closing balance of uncommitted capital funding across the life of the Strategy is:

2008/09	£ 83,000
2009/10	£ 64,000
2010/11	£ 53,000
2011/12	£ 48,000
2012/13	£ 40,000

36. The proceeds of dwelling sales under the Right to Buy scheme have been a major source of regular ongoing capital receipts for many years. However, from 2005/06 there has been evidence of a significant reduction in sales, which is combined with the ending of the transitional relief from the effects of the national pooling of housing capital receipts.

COST REDUCTION ACTIONS TO DATE

37. The Council has responded to cost pressures in a robust and structured fashion. We have taken steps to drive down our cost base via restructuring, reduced overhead costs, improved collaborative procurement and other efficiencies, while adopting a rigorous approach to budgetary control. Effective value for money reviews are a key part of this strategy and have identified both significant financial savings and improvements in service provision. We have also put in place a more systematic process for reviewing our fees and charges for services. The Council's success in ensuring that its MTFS, revenue and capital budgets are soundly based and that

good value for money is achieved has been recognised in the Audit Commission's 'performing well' score for Use of Resources in December 2008. Our various actions have meant that we have reduced our net expenditure by 16% (to £20m) between 2007/08 and 2009/10.

38. The Council remains committed to the identification of efficiency measures and the delivery of value for money services. The identification and reporting of efficiency gains, under the philosophy of the Gershon initiative, has been integrated within the existing corporate processes operated by the Council. This has served to avoid any unnecessary additional or duplicated effort, whilst ensuring that gains are considered at the most appropriate point in the annual process

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FINANCIAL STRATEGY

39. We need to find contributions of £1.4m in 2010/11 to produce a balanced budget. If we take into account the forecast investment income contribution (£1.1m) then to successfully **eliminate** dependency on investment income we need to reduce net costs by £2.6m. 3 years is a more realistic timeframe in which to make the required changes to the organisation and our services. This requires a reducing general fund contribution over the 3 year period.

40. The compilation of this MTFS has served to confirm a set of key parameters which are both appropriate and achievable in the context of the Council's overall objectives. These include:

    - Council Tax increases at / below forecast inflationary levels
    - Savings target of £870k each year for years 2010/11 – 2012/13
    - Risk and interest smoothing of £1m
    - Retention of recovering interest contributions in excess of savings to increase capital base
    - Reserves target level of £6m in the medium-term, with a £2m working balance requirement

41. The level of council tax increases assumed is expected to result in the Council remaining among the lowest levels of increase for Districts in the country.

42. Both the General Fund and reserves will be in line with the forecast projections within the medium-term 5-year projection period.

43. Risk analysis has also been undertaken to identify the impact of potential changes in a number of the key variables, and to identify measures to mitigate against the highest areas of risk.

OPERATIONAL IMPLEMENTATION

44. We will use the coming year, 2009/10, to put into place a series of cost containing measures. Our primary focus will be to protect front line services, deliver support to those in need and do what we can to protect and stimulate the local economy. We

will actively seek to take advantage of revenue gains associated with early implementation of such measures where possible.

45. We will seek sustainable ways of securing a phased elimination of contributions from investment income as a result of delivering services in different ways, working with others to share costs wherever possible, improving our contract management skills and focussing on the innovative use and management of our assets.

46. We will focus on 3 specific objectives. We have identified a range of tools we will deploy as appropriate to meet those objectives. The tools identified within this document do not constitute an exhaustive list. Furthermore, we recognise many of the tools will be applied to different services in different ways at different times. We recognise one size does not fit all.

Objective 1

47. Successfully deliver the current year's spending plans to budget.

    Key areas of focus

    - This will be delivered via a suite of measures including effective budgetary control relating to capital and revenue expenditure, accurate profiling and forecasting, effective project management to deliver savings targets explicit within the current budget to time and cost assumptions, and the effective management of working capital, cash-balances, assets and the Council's investment portfolio.
    - Understanding our communities and the impact of the downturn enabling us to anticipate effects in a timely and accurate way underpins our approach.

Objective 2

48. To secure cost reductions in the current and coming financial year to offset the forecast shortfalls that flow directly from the economic downturn.

    Key areas of focus

    - An interim workforce planning strategy, enabling flexible resourcing of services in keeping with fluctuations in demand
    - Effective employee relations to ensure salary expectations are managed within the overall cash envelope for the ongoing job evaluation exercise.
    - Opportunity savings in relation to early or planned retirements, labour turnover and early completion of scheduled projects taken where ongoing business need remains unaffected, or where reshaping of the structure of the organisation enables efficient re-alignment of existing resources to accommodate ongoing business need.
    - Providing innovative investment to stimulate the local economy with particular emphasis on the housing market. Enabling our investments to work harder, delivering both community benefit and revenue returns.

- Value for money reviews of overhead based costs for example goods and services such as insurance, fuel, utilities and occupancy levels of operational Council buildings.
- Revised treasury management and capital finance strategies to provide:

  - Increased efficiency in working capital;
  - A revision of our risk appetite to reflect the order of priorities as security, yield and liquidity;
  - An extended range of instruments;
  - Consideration of pooled investments

- Revised asset management strategy focussed on securing revenue contributions as a result of shared costs. Providing where possible, added value services in addition to the Council's traditional Landlord role. Providing flexibility in charging, enabling the utilisation of marginal pricing where advantageous to the Council's fixed costs base.
- Strategic procurement of goods and services. Wherever possible, in partnership with others at the time of tender. Securing "open contracts to allow other parties to join retrospectively providing additional financial benefits to all parties.
- Effective contract management modelled on commercial good practice to secure improved value for money. Retrospective consideration of collaborative potential and alternative financing models in key contractual areas.
- Reduction in service-based indirect costs associated with service delivery via a review of management arrangements, enabling greater investment in front line resources
- Outsourcing and shared service arrangements for non customer facing transactional services.

Objective 3

49. Securing sustainable improvements to both costs and revenue sources to enable elimination of dependency on investment income.

    Key areas of focus

    - Continuation of our value for money programme.
    - Potential shared service delivery vehicles and /or outsourced arrangements for back office support functions.
    - Potential strategic alliances at operational levels with one or more public sector partners enabling greater sharing of overheads and joint use of resources.

BUDGET PROCESS

50. The service and financial planning process for 2010/11 will build directly on the process which has been successfully developed over the last three years. However,

the implementation of savings in the current financial year will provide a base for the requisite full year effect in 2010/11. We will report progress towards achieving these savings quarterly to the Executive.

BUDGET CONSULTATION

51. Over recent years the Council has developed public budget consultation to identify spending and savings priorities to inform the budget process. The findings from this work have identified trend information, which has produced reasonably consistent results.

52. An allowance will be made to cover some qualitative consultation with residents, probably through focus groups or an interactive workshop as part of the 2010/11 Budget process.

53. This consultation may be used to 'test' different spending and savings options or to explore various proposals with residents that emerge from the value for money review programme or proposed sustainable savings initiatives.

SUMMARY

54. The MTFS has reviewed the key elements of the existing strategy, confirming that these are still both appropriate and realistic in the coming year with clear proposals for action to ensure our future priorities are resourced both over the medium-term and in the longer-term. In doing so, a framework has been determined for detailed work to develop the Council's 2010/11 budget.

55. Financial modelling has determined a sustainable approach to securing the elimination of dependency on investment income, which requires support from reserves to a <u>maximum</u> contribution of £750k in 2010/11 reducing to £500k and £250k in the following 2 years. This makes provision for some growth elements.

56. Work on the financial projections for the MTFS has been accompanied by risk analysis work, and the recommended strategy reflects this in terms of the setting of the target level of reserves.

Appendix A

The main assumptions included in the budget forecast are:

1. Base – 2009/10 Approved Budget, with known changes for 2010/11.

2. General inflation on expenditure:

	2009/10	2010/11	2011/12	2012/13	2013/14
Inflation	2%	1.8%	2%	2.1%	2.1%

3. Increased central provisions have been made for fuel, electricity and gas based on current knowledge of these markets

4. Employee budgets include: total allowance for pay and increments at the following %

	2009/10	2010/11	2011/12	2012/13	2013/14
Inflation	3%	1.25%	1.5%	2.1%	2.1%

5. Employee budgets - assume an employee turnover saving of 2% of gross pay budget which is included in risk provision calculation.

6. Property Rental income – based on projections from the portfolio, reflecting actual incidence of rent reviews. Overall effect is equal to % assumed under the assumed level of inflation in 2 above.

7. Income and Charges – general assumption of inflation built into base.

8. Interest rate – based on latest market projections (on average 2% for 2010/11)

9. Major contracts and agreements, in term are rolled forward based on the specified inflation indices in the contract or agreement.

10. Grants and Subsidies are analysed for sensitivity based on possible range of implications, dependent on government approach