
Report to

Scrutiny Board 1
Cabinet and Council

8 December 2005
13 December 2005

Report of

Director of Finance and ICT

Title

The Medium Term Financial Strategy 2005-2009

1 Purpose of the Report

- 1.1 This report presents a Medium Term Financial Strategy for 2005-2009 for adoption by the City Council. The Strategy is attached in full.

2 Recommendations

- 2.1 Scrutiny Board 1 is asked to consider this report and forward its comments to Cabinet.
- 2.2 Cabinet is recommended to note the comments of Scrutiny Board 1, agree or amend the Medium Term Financial Strategy appended to this report, and to recommend that the Strategy be approved by full Council as the basis of the City Council's medium term financial planning process.

3 Information/Background

- 3.1 Coventry City Council has operated medium term financial planning for many years. Cabinet formally approved the current medium term financial strategy in 2004 and this report recommends some minor updating.
- 3.2 Paragraph 4.3 of the full strategy notes that "In applying the resources available the City Council will determine the most appropriate allocation of resources to reflect the needs of local people and priorities". Paragraph 4.4 recognises that "The process of management within the authority should be about making the best use of resources available and seeking appropriate opportunities for savings. The PPR process may often seek to identify areas of savings as an integral part of the process to allow maximum flexibility of resource switching during periods of policy and financial decision making".
- 3.3 The Council already places considerable emphasis on improving value for money and identifying efficiency savings throughout the organisation. We are on track to deliver the £8m savings required by government during 2004/05 and 2005/06.

4 **Proposal and Other Option(s) to be considered**

- 4.1 The Strategy is intended to improve the financial planning process, to enable the Council to achieve the best fit of resources to policies and to maximise the transparency of our financial plans. The completion of and adherence to the Strategy will continue to meet the requirements of the Council's modernising agenda.

5 **Other specific implications**

- 5.1 Under the City Council's Constitution, it is full Council which is responsible for approving the authority's policy framework and budget. The definition of "policy framework" includes any plan or strategy for the control of the authority's borrowing or capital expenditure and so this will include the medium term financial strategy. The strategy will therefore need to be formally approved by full Council.

- 5.2 The Strategy sets out the key policies and assumptions that will underpin the Council's financial projections for the next three years. As such it will potentially impact on all aspects of the Council's operations. Specific issues for Finance and Human Resources are set out below.

5.3 Human Resources

The decisions taken in the policy and financial planning process may affect some jobs. Any changes to jobs arising from implementation will be managed through the City Council's Human Resources policies and procedures.

5.4 Finance

Details of the financial implications are included in The Medium Financial Strategy attached.

5.5 Trade Union consultation

Briefings will be provided for the trades unions on the budget setting process.

	Implications (See below)	No Implications
Area Co-ordination	✓	
Best Value	✓	
Children and Young People	✓	
Comparable Benchmark Data	✓	
Corporate Parenting	✓	
Coventry Community Plan	✓	
Crime and Disorder	✓	
Equal Opportunities	✓	
Finance	✓	
Health and Safety	✓	
Human Resources	✓	
Human Rights Act	✓	
Impact on Partner Organisations	✓	

	Implications (See below)	No Implications
Information and Communications Technology	✓	
Legal Implications	✓	
Property Implications	✓	
Race Equality Scheme	✓	
Risk Management	✓	
Sustainable Development	✓	
Trade Union Consultation	✓	
Voluntary Sector – The Coventry Compact	✓	

6 Monitoring

- 6.1 Management Board will review and recommend revisions to the Strategy each year to ensure that it remains relevant.

7 Timescale and expected outcomes

- 7.1 It is intended that the Strategy's key policies and assumptions will be implemented within the current cycle of the policy and financial planning process.

List of background papers

Proper officer: Angie Ridgwell, Director of Finance and ICT

Author: Telephone 76833941
Jane Murphy, Financial Systems Manager, Finance and ICT
(Any enquiries should be directed to the above)

Other contributors:
Mike Coult Head of Financial Management
Roger Hughes Head of Corporate Policy
Chris Hinde Director of Legal & Democratic Services

Papers open to Public Inspection

Description of paper	Location
None	

Coventry City Council

MEDIUM TERM

FINANCIAL

STRATEGY

2005 - 2009

November 2005

COVENTRY CITY COUNCIL'S MEDIUM TERM FINANCIAL STRATEGY 2005-2009

1. Introduction

1.1 Coventry City Council operates medium term financial planning as an integral part of its Budget Setting. This document brings together the essential elements of the Council's financial planning process into its Medium Term Financial Strategy (MTFS). Sections 11 and 12 show our initial medium term projections for revenue and capital at the start of the 2005 Policy and Financial Planning process.

1.1 The purpose of the strategy is to establish a financial framework which supports the delivery of the Corporate Plan. It ensures the Council can:

- make informed decisions about the use of finance across all City Council policies and activities
- ensure stability in the provision of City Council services and annual levels of Council Tax, which links into current government proposals for 3 year grant settlements
- give maximum priority to front-line services whilst minimising administration costs in a way that is consistent with its corporate objectives and balanced scorecard
- provide a framework within which the Council can achieve efficiency savings, in accordance with the "Delivering Efficiency in Local Services" framework
- provide an overview of all the factors that can affect our financial position including revenue raised by tax income, external support provided by Central Government, capital expenditure, grant income and the effects of capital financing charges
- establish base budgets for services that match resources against their relative contribution to the achievement of the corporate objectives
- provide a vehicle for involving Members and other audiences in the medium term financial planning process.

1.2 The Strategy will enable us to:

- set out the policies and assumptions approved by the Council that lie behind the medium term financial planning projections
- provide some indicative financial limits within which the policy planning process will need to be conducted
- provide the financial information necessary to enable the policy planning process to deliver the optimum resource flexibility consistent with Corporate Objectives
- supply resources to where investment is most needed
- give some planning projections of future Council Tax increases (assuming stability of other indicators)
- link a variety of key elements (including revenue spend and resources, capital spend and resources and asset utilisation) within the financial planning process.

2. Using Finance to Support the Council's Corporate Objectives

2.1 The 2005-2009 Strategy is concerned primarily with delivering the current Corporate Plan, Cabinet Member Strategic Plans and the Operational Plans drawn up for each Directorate. The current Corporate Objectives are listed below.

To improve the quality and efficiency of services and make it easier to access them
To ensure the best possible education for all and that children and young people can achieve their maximum potential
To regenerate the city and ensure people have a good choice of jobs and housing
To promote health, independence and choice for all citizens
To create a city where people feel safe and confident and no-one is disadvantaged by the neighbourhood in which they live
To make the city Clean and Green
To actively promote equality so that people from different backgrounds have similar life opportunities

- 2.2 The MTFS sets out the broad financial policies and assumptions approved by Members and Management Board that lie behind the Council's medium term financial planning process. Essentially the Strategy is a vehicle for enabling the Council to get the best out of the resources available to it and to deliver effective and value for money services. Although the Strategy is based on sound financial planning principles, it is also a political document, reflecting as it does the current policy direction of the City Council.
- 2.3 It is clear that this should be a financial strategy that supports rather than drives the corporate and service delivery objectives of the Council. In doing this the strategy will enable the Council to deliver its Corporate Plan and Cabinet Member Strategic plans.
- 2.4 The Council has revenue and capital budgets that are balanced in 2005/06 but not yet over the subsequent three year revenue and capital programmes. Moving towards a balanced medium term position will be a fundamental part of the 2005 MTFS.
- 2.5 In order to achieve this, we must continue to justify new revenue and capital development proposals in terms of Corporate objectives and resources being switched from low to high priority areas (sections 4 and 7). Our financial plans should continue to be underpinned by sound principles and our external grant income should be maximised (subject to a number of criteria) allowing maximum impact in high priority areas (sections 5 and 6). There should be further development of the management of reserves, risks and assets such that they are closely geared towards the corporate service delivery agenda (section 8). Increases in the level of Council Tax should strike a balance between affordability for the public and enabling improvements in service delivery (section 9) whilst the views of stakeholders should all the time be used to inform our actions (section10).
- 2.6 The Strategy is a public document that essentially sets out the key policies and assumptions that will underpin the Council's financial projections for the next 3 years. These are highlighted throughout the document and have been included to provide an executive summary in section 3 below. This revision represents an opportunity to review and revise the Strategy to ensure that it remains relevant and that it is being successfully delivered.

3. Executive Summary of Key Policy Principles and Assumptions

Policy Principles (see section 4)

- i) **The Medium Term Financial Strategy will provide a financial framework to enable implementation of the Corporate Plan, Cabinet Member Strategic Plans and Operational Plans.**
- ii) **The increase in the Council's Formula Spending Share (FSS) for Schools announced each year by Government has been passported to the Children's Service. The government's emerging new funding policy for schools will require this policy to be updated when full details of the changes are known**
- iii) **The Corporate Objectives, set out in paragraph 2.1, should be viewed as a priority in resource allocation terms above other areas of expenditure during the financial planning process.**
- iv) **In applying the resources available the City Council will determine the most appropriate allocation of resources to reflect the needs of local people and priorities.**
- v) **The process of management within the authority should be about making the best use of resources available and seeking appropriate opportunities for savings. Savings can be generated by either service reviews leading to service reductions, or efficiency savings (where the level of service provision is not reduced). The "Delivery of Efficiency in Local Services" has provided a new focus for the achievement of efficiency savings. Every officer of the Council should be looking for ways in which services can be provided more efficiently, so that freed resources can be made available to help pay for corporate priorities. The Policy and Financial Planning process will seek to identify areas of savings as an integral part of the process to allow maximum flexibility of resource switching.**

Assumptions regarding External Resources (see section 5)

- vi) **The resources provided by central government, at a national level, will be consistent with the figures announced in the last national Spending Review (2004).**
- vii) **Coventry's share of the resources provided by central government will be consistent with the general share of resources received in recent years and any underlying trends in socio-economic data.**
- viii) **We will seek to maximise the level of external grant income secured, subject to the grant supporting Council policy, the existence of a robust succession strategy where the project is likely to be of an ongoing nature, our capacity to administer the grant adequately and satisfaction that overall we are achieving value for money.**
- ix) **We will seek to maintain the level of fees and charges in real terms within the context of the current charging policy. These levels will be reviewed annually to ensure that for specific services, fees and charges policy is not contrary to the achievement of Corporate Objectives.**

Inflation of Revenue Budgets (see section 6)

- x) **Pay budgets will be inflated to reflect actual pay awards and pay scale progression arising from the implementation of single status.**
- xi) **RPIY (Retail Price Index excluding mortgage interest payments and indirect taxes) will be used as a guide when inflating the majority of other budgets.**
- xii) **The RPIY indicator announced in September of each year will be used to guide the inflation of most other budgets in the following year.**
- xiii) **A composite contract inflation rate will be applied to relevant budgets, including grants to the voluntary sector, reflecting their balance of pay and other costs and the standard rates of pay and other inflation. A separate inflation rate will be applied to Information Technology budgets based on best information during the budget setting process.**

Capital Strategy (see section 7)

- xiv) **A corporate approach will be taken to capital investment decisions with the allocation of resources and prioritisation of projects being fully justifiable in terms of policy priorities, value for money and a clear treatment of the relationship between the use of capital and revenue.**
- xv) **The revenue financing costs arising from the corporate Capital Programme will be funded corporately.**
- xvi) **Decisions on funding the ongoing revenue costs arising from Capital Programme allocations will be made based on the individual circumstances of each specific scheme, and will be explicitly provided for in service revenue programmes.**

Reserves, Asset Management and Risk Management (see section 8)

- xvii) **All reserves will be held corporately to support delivery of the council's objectives. Their purpose will be clearly identifiable and designed either to improve services or cover risks. Where appropriate there will be time limits on earmarked reserves.**
- xviii) **The value of reserves held to protect against known or potential liabilities should be kept to a minimum consistent with adequate coverage of those liabilities.**
- xix) **A strategic approach to Asset Management decisions will ensure that they take account of the overall balance of spend and resources reflected in the Council's medium term financial planning projections.**
- xx) **The medium term financial and policy planning processes will identify and assess any known major risks in the context of the overall financial standing of the authority.**

Council Tax (see section 9)

- xxi) **The Council Tax should be set at as low a level as possible consistent with achieving the Council's Vision and Corporate Objectives and reflecting its stated values.**

Consultation (see section 10)

- xxii) **We will continue to pursue the most effective forms of consultation with stakeholders and feed the results into our medium term policy and financial planning decisions.**

Medium Term Financial Plans (see sections 11 and 12)

- xxiii) **We will aim to plan for a balanced revenue programme over the medium term.**
- xxiv) **We will aim to plan for a balanced capital programme for the following financial year and a sustainable programme over the medium term.**

The remainder of the MTFs consists of further analysis of these key policy principles and assumptions in sections 4 to 10.

4. Policy Principles

4.1 The Corporate Plan and Corporate Objectives

Key Policies and Assumptions (i)

The Medium Term Financial Strategy will provide a financial framework to enable implementation of the Corporate Plan, Cabinet Member Strategic Plans and Operational Plans.

The Council's financial strategy needs to be set within the context of the Council's corporate objectives and policy priorities. The Strategy will help to determine how resources are allocated to help deliver the policy agenda.

The Council has to consider a number of factors when deciding upon its policy agenda including:

- the needs of the City as identified by councillors, partners and local people
- the performance of the Council's services
- the Government's policy and statutory plans
- the Coventry Community Plan and the council's Local Area Agreement
- the Council's other strategic plans.

The Council has recently reviewed its Vision, Values and Corporate Objectives. The Vision and Values are reproduced below. The Corporate Objectives are listed in section 2.1 of this document.

Vision

The Council wants Coventry to be a growing city where people choose to live, work and be educated and businesses choose to invest.

Values

- Demonstrate good leadership, honesty and responsiveness
- Put the customer or client first
- Provide good value for money
- Value diversity and community cohesion
- Work in partnership.

The Council's policy objectives are already being partly or wholly achieved within existing budgets. The financial strategy will provide the scope to change existing financial plans to enable us to improve resource allocation and the quality of service delivery within the total amount of resources available. The detailed process for delivering these changes may vary each year but the overall policy assumptions to be applied are described below.

In the short to medium term the Council's single most important task is to ensure that it successfully implements its Corporate Plan. The Plan incorporates the most important developments that the Council recognises are necessary to improve its performance in a number of key service areas. Successful implementation of the plan will represent a significant step forward on the road to realising the City Council's Vision, applying its Values and achieving its Corporate Objectives.

4.2 Schools

Key Policies and Assumptions (ii)

The increase in the Council's Formula Spending Share (FSS) for Schools announced each year by Government has been passported to the Children's Service. The government's emerging new funding policy for schools will require this policy to be updated when full details of the changes are known.

Education has been a vitally important priority for Central Government and for Coventry City Council in recent years. For this reason, it has been a central aspect of local policy to ensure that all the money that Central Government has earmarked for Schools has been passed on to the service. **The expectation is that from 2006, there will be new arrangements in place, arising from the government's emerging changes to the funding of schools. The MTFS will be updated when the changes are known.**

4.3 Other Priorities

Key Policies and Assumptions (iii)

The Corporate Objectives, set out in paragraph 2.1, should be viewed as a priority in resource allocation terms above other areas of expenditure during the financial planning process.

The Corporate Objectives are concerned with the physical and social environment and modernising and improving those services on offer to the Council's customers. Clearly these objectives are key to achieving the Council's policy agenda over the medium term. Since pressure on expenditure usually exceeds the amount of resources available it is essential that resources continue to be directed to the highest priority areas.

Key Policies and Assumptions (iv)

In applying the resources available the City Council will determine the most appropriate allocation of resources to reflect the needs of local people and priorities.

Central Government uses the Formula Spending Share (FSS) mechanism to calculate the financial allocation of resources to local government. At the current time, within the total FSS, the only prescription applied by Central Government relates to the Schools FSS, although this will change with the new schools funding regime. Beyond this, the City Council has the discretion to apply resources in any way that it sees fit, although this will naturally include ensuring that the Council meets its statutory duties and service delivery expectations. Essentially, the Council will use the resources available to it in a way that reflects the needs of local people, and locally determined policy priorities. This will give the required flexibility to deliver the best financial package that we can to support the local policy agenda.

4.4 Policy Principles - Efficiency Savings

Key Policies and Assumptions (v)

The process of management within the authority should be about making the best use of resources available and seeking appropriate opportunities for savings. Savings can be generated by either service reviews leading to service reductions, or efficiency savings (where the level of service provision is not reduced). The "Delivery of Efficiency in Local Services" has provided a new focus for the achievement of efficiency savings. Every officer of the Council should be looking for ways in which services can be provided more efficiently, so that freed resources can be made available to help pay for corporate priorities. The Policy and Financial Planning process will seek to identify areas of savings as an integral part of the process to allow maximum flexibility of resource switching.

Typically the medium term financial planning process will be confronted by a funding gap. This will require the limiting of new cost pressures or resource switching from existing areas of expenditure. This resource switching inevitably requires the delivery of savings – either through stopping the provision of some services or by providing them more efficiently. It is essential that such savings are achieved to allow continued priority to be given to the Council's Corporate Objectives, to enable us to fund unavoidable cost pressures and to ensure that the Council continues to deliver services in as cost effective a way as possible. The Council is establishing an officer group to support the quest for efficiency savings throughout the organisation.

The achievement of efficiency savings and change management more generally will sometimes result in restructuring and a need to pay for redundancy and retirement costs. These costs can represent a barrier to making change and finding efficiency savings and it is therefore important that this obstacle is minimised if we are to maximise our ability to implement positive service changes within the City Council. Where such changes are agreed through corporate processes (including the Policy and Financial Planning Process) it is intended that the funding of the costs will be agreed on a corporate basis in a way most appropriate to delivering the changes and meeting Corporate Objectives.

5. External Resources

5.1 Total External Support from Central Government

Key Policies and Assumptions (vi)

The resources provided by central government, at a national level, will be consistent with the figures announced in the latest national Spending Review (2004).

Since 1998 central government has announced a forward programme of public spending to cover the following 3 years. This forecast is updated every two years, with the latest review being announced in 2004, covering the financial years up to and including 2007/08. The implications of the 2004 Spending Review are currently being incorporated into our financial planning projections.

Key Policies and Assumptions (vii)

Coventry's share of the resources provided by central government will be consistent with the general share of resources received in recent years and any underlying trends in socio-economic data.

Coventry's share of the resources provided by central government is calculated using a wide range of socio-economic data. The formulae used to perform these calculations have been reviewed in recent years and significant changes introduced. It is unlikely that further significant changes will be introduced over the next three years. Therefore, Coventry is likely to receive a reasonably constant share of the national resources during this period. There will be some changes in the socio-economic data and the resource projections include the likely effects of these changes based on the trends over recent years. The Government's balance of funding review may have a medium term to long term impact on the Council's overall resource position, but this is impossible to anticipate at the current time. Members will be kept informed of any significant developments in this area.

5.2 External Grant Income

Key Policies and Assumptions (viii)

We will seek to maximise the level of external grant income secured subject to the grant supporting Council policy, the existence of a robust succession strategy where the project is likely to be of an ongoing nature, our capacity to administer the grant adequately and satisfaction that overall we are achieving value for money.

The level of Formula Grant (Revenue Support Grant and National Non Domestic Rates) is fixed by Government each year. We do have some local flexibility in the setting of Council Tax, increasing fees and charges and the level of grants we can bid for from Europe and from Central Government and external specific grant income can therefore represent a significant contribution to the achievement of our Corporate Objectives. For this reason we should seek to maximise the level of external grant income secured, broadly observing the following principles.

- There must be a strategy to deal with grant fall out that does not rely on City Council funding where the project is likely to be of an ongoing nature
- It may be justifiable to enter a grant regime with no expectation of continuation of the project beyond the time-limited nature of the funds available
- We need to ensure that sufficient capacity exists to manage the financial and operational effects of receiving grant funding

- As with all City Council expenditure, we should ensure that the resources applied represent value for money (including the cost of bidding and the requirement for matched funding)
- Consideration of the future fall-out of grant income should be a key component of each PPR and at an early stage in the planning cycle
- Difficulties in securing grant income and complying with the associated rules in specific areas might persuade us not to pursue certain grants in the future
- There should be sufficient flexibility in the decision making process to allow decisions to support grant regime developments to be made throughout the year where this is felt to be beneficial to the authority. This flexibility can be offered via the Capital Working Group on Capital Programme matters and through the use of corporate contingencies or reserves on revenue issues.

Notwithstanding these caveats, we will continue our efforts to secure these external resources in support of our corporate objectives and other policies.

5.3 Fees and Charges

Key Policies and Assumptions (ix)

We will seek to maintain the level of fees and charges in real terms within the context of the current charging policy. These levels will be reviewed annually to ensure that for specific services, fees and charges policy is not contrary to the achievement of Corporate Objectives.

A wide variety of City Council services charge users and the income generated reduces the overall net cost of providing Council services. The level of charge will take a number of factors into account including the requirements of legislation, how much customers are prepared to pay for a service, how much we think they should have to pay for a service and what the purpose of charging is. For some services the charge may be required to cover fully the cost of the service. For others, it may just be expected to reduce the net cost of the service or it may be expected to exceed the cost (i.e. to make a profit), therefore generating income to help pay for other services provided by the City Council. The level of these charges is reviewed annually and the expectation is that charges are largely set at a level consistent with the criteria above and with the achievement of Corporate Objectives where appropriate. The annual review of charges within each Directorate will ensure that this balance is maintained and updated where necessary.

6. Inflation of Revenue Budgets

Coventry operates a budgeting system based upon three year rolling financial programmes. Moving from one year to the next, each service budget will, as far as possible, change to reflect the effects of inflation, changes which reflect the cost of continuing the current policy i.e. to allow for demographic changes, and any medium term Policy and Financial Planning decisions.

6.1 Pay Inflation

Key Policies and Assumptions (x)

Pay budgets will be inflated to reflect actual pay awards and pay scale progression arising from the implementation of single status.

Pay budgets are inflated each year to reflect actual pay awards. If such awards were not inflated in full, this would represent a reduction in budgets in real terms. Whilst this could always be a way of creating across the board savings such a method would be somewhat arbitrary and could easily result in budgets being cut in high priority areas. It is proposed therefore that the existing policy of inflating pay awards to reflect actual pay increases should continue.

Often, actual pay awards for the following year are not known until well into the year itself. Our current medium term plans take, as a basis, any indications from current pay negotiations, the pattern of recent pay awards and any medium term economic trends that affect the labour market. Clearly, these may not be completely reliable and it may be that our estimate of the pay award may not be matched by the actual award. If this happens, this will have to be adjusted once the pay award has been settled.

6.2 Price and Income Inflation

Key Policies and Assumptions (xi)

RPIY (Retail Prices Index excluding mortgage interest payments and indirect taxes) will be used as a guide when inflating the majority of other budgets.

Recent policy has been to inflate the majority of remaining (non-pay) budgets including income budgets using the Government's RPIY indicator that is updated on a monthly basis. This indicator reflects the retail price index excluding mortgage interest payments and indirect taxes and is felt to be the best guide to general inflation affecting Local Authority expenditure and income. Using RPIY will not necessarily inflation proof all budgets and at different times there will be services that are adversely affected by very specific types of inflation. However, to cover each specific category of expenditure with a separate inflation rate would be unnecessarily complicated. Although it might ease inflation pressure in one area, such a course of action would not generate extra resources but merely put extra pressure elsewhere within the Council's bottom line. The use of RPIY is seen as being a relatively efficient and equitable way of inflating budgets.

Key Policies and Assumptions (xii)

The RPIY indicator announced in September of each year will be used to guide the inflation of most other budgets in the following year.

There needs to be a balance between taking an indicator too early (which therefore becomes increasingly irrelevant as time goes on) and too late (which can then cause unhelpful late adjustments to the balance of spend and resources). It is proposed that during the early part of the Policy and Financial Planning process a best guess RPIY is used and that the RPIY announced in September of each year is the final figure used to inflate following year budgets.

6.3 Contracts Inflation

Key Policies and Assumptions (xiii)

A composite contract inflation rate will be applied to relevant budgets, including grants to the voluntary sector, reflecting their balance of pay and other costs and the standard rates of pay and other inflation. A separate inflation rate will be applied to Information Technology budgets based on best information during the budget setting process.

Currently there is one further inflation category to reflect budgets that, whilst not being direct pay budgets, contain a significant element of pay related costs. This covers contract areas (including companies such as CVOne and trusts such as the Coventry Sports Trust), grants to voluntary organisations and Social Services Community Care payments. Traditionally, inflation on these types of budget have run significantly ahead of the standard inflation provision, due largely to the pay element within the host organisations. This additional inflation category is a mix of the standard pay inflation and non-pay inflation indices referred to above. The exception is for externally provided Information Technology services where a best guess inflation rate is assumed and applied.

The basic inflation indices used in these areas will be identical to those applied to other Council services as stated in 6.1 and 6.2 above. Therefore, this category of provision is not guaranteed to inflation proof such budgets. This is no different to other non-pay City Council budgets where the inflation provision reflects an assumed rather than an absolute rate of inflation. Any differences between the % by which budgets are inflated and the actual level of inflation incurred needs to be discussed corporately and/or managed by the relevant service. This is particularly important in the context of delivery by services or voluntary organisations that contribute to overall Council priorities.

Clearly, the level of inflation on payments to other bodies will depend upon the Council's ability to pay taking into account other priorities within each individual Policy and Financial Planning cycle.

7. Capital Strategy

7.1 Policy Prioritisation of Capital Spend Decisions

Key Policies and Assumptions (xiv)

A corporate approach will be taken to capital investment decisions with the allocation of resources and prioritisation of projects being fully justifiable in terms of policy priorities, value for money and a clear treatment of the relationship between the use of capital and revenue.

The Operational Plans produced by Directorates identify how they propose to use capital resources to take forward the Council's Corporate Objectives and priorities. The plans include new and ongoing projects and projects funded from the service's own as well as corporate resources. These proposals are considered as part of the Council's Policy and Financial Planning process, with a major input into the capital process by the corporate groups established to give a strategic lead on capital spending decisions. This achieves a capital programme that addresses the important priorities in a balanced way - through dialogue and discussions with Directorates and by corporate resource allocations. The allocations in the Capital Programme are for the life of approved schemes that start in year one but provisional only for schemes that start in year two onwards.

7.2 Revenue Financing Costs

Key Policies and Assumptions (xv)

The revenue financing costs arising from the corporate Capital Programme will be funded corporately.

It is appropriate to align the treatment of the revenue financing costs of capital with the treatment of the capital spend. Otherwise, a corporately based capital spend decision could

be jeopardised by lack of Directorate resources to meet the revenue financing costs. Therefore, revenue financing costs resulting from the corporately agreed capital programme will automatically become part of the corporate revenue PPR approvals.

7.3 Other Revenue Costs

Key Policies and Assumptions (xvi)

Decisions on funding the ongoing revenue costs arising from Capital Programme allocations will be made based on the individual circumstances of each specific scheme, and will be explicitly provided for in service revenue programmes.

Many capital programme allocations will have revenue cost implications in terms of staffing costs, maintenance costs etc (i.e. not linked to the revenue financing costs referred to above). In some circumstances, the capital scheme will simply be replacing existing methods of service provision and the new revenue costs will be comparable to (or less than) the existing costs. In other instances there will be significant revenue running costs associated with the scheme and any decision to approve the capital allocation will need to be taken alongside an explicit decision on how to fund the revenue costs. The corporate groups mentioned in 7.1 above will make recommendations on the method of dealing with the revenue costs that will then get taken forward as part of the Policy and Financial Planning process.

8. Reserves, Assets and Risk Management

Reserve balances are held as an aid to robust financial management and in recognition that 31st March each year is an arbitrary date in service delivery terms. Specifically reserves held by Coventry have enabled significant investment in our key corporate policy objectives in recent years and have provided a significant revenue stream in the form of investment income. However, it is important that the Council does not pursue a policy that is too risk averse. Such a policy would mean holding too many balances just in case all our worst case scenarios happened at once. The retention of balances that are larger than necessary would mean that the Council might miss opportunities to improve services. The MTFS provides a framework for delivering an optimum level of reserve balances that lies within acceptable maximum and minimum reserve holdings.

8.1 Policy on Reserves

Key Policies and Assumptions (xvii)

All reserves will be held corporately to support delivery of the council's objectives. Their purpose will be clearly identifiable and designed either to improve services or cover risks. Where appropriate there will be time limits on earmarked reserves.

Key Policies and Assumptions (xviii)

The value of reserves held to protect against known or potential liabilities should be kept to a minimum consistent with adequate coverage of those liabilities.

Reserve balances are held as an aid to robust financial management and in recognition that 31st March each year is an arbitrary date in service delivery terms. Specifically reserves held by Coventry have enabled significant investment in our key corporate policy objectives in recent years and have provided a significant revenue stream in the form of investment income. However, it is important that the Council does not pursue a policy that is too risk

averse. Such a policy would mean holding too many balances just in case all our worst case scenarios happened at once. The retention of balances that are larger than necessary would mean that the Council might miss opportunities to improve services or influence the level of Council Tax.

All reserves will be held corporately to support the delivery of the council's objectives. Their purpose will be clearly identifiable and designed either to improve services or cover risks. Where appropriate there will be time limits on reserves.

In overall terms, reserves should only be held with the aim of maximising the resources that can be made available to support service delivery. There must be plans in place to apply reserves of this nature within a medium term financial framework. This reduces the likelihood of resources being held unnecessarily on the balance sheet when they could otherwise be used to support achievement of the Council's corporate objectives. Specific justification must be made for any reserves not planned to be used within the medium term.

In practice, this will mean that some reserves, such as the Insurance Reserve, will be held at a certain level to manage specific risks or liabilities. Other reserves will be linked to a specific service delivery output. All other reserves will be held to manage future service delivery developments through the Policy and Financial Planning process. By maximising the amount of resources to be channelled through a corporate decision making process, the Council will increase the opportunities to maintain an appropriate balance between short term expenditure and long term investment. The initial emphasis for applying these resources will be to deliver the Council's Corporate Plan.

Reserve balances will be held corporately for one of four reasons.

- a) reserves held for a specific purpose, including reserves which enable the smoothing of irregular but recurring types of spending, like repairs.
- b) reserves which protect against known or potential risks,
- c) unallocated reserves for use within the Policy and Financial Planning process.
- d) working balance – to provide corporate cover against unexpected fluctuations in income or expenditure. The working balance is currently £3m.

The intention is to minimise the amount held to protect against risks whilst at the same time ensuring that there is adequate coverage of the risks. Assessing all such reserves and any revenue contingency budgets collectively allows more efficient management of risk at a corporate level.

The underlying principle of Coventry's budgetary control policies is that services manage their budgets within allocated resources. If service pressures emerge, they must be reported in the monthly budget monitoring reports, and they will be considered in a corporate context. It may then be necessary to utilise reserves to manage the service pressures in year, and refer to the medium term planning process for ongoing impact, if appropriate.

At the end of a financial year, Directorates may underspend their budgets because of slippage on specific projects, and need to carry forward resources to enable spending to be completed the following year. Subject to Management Board scrutiny and Cabinet approval (for those carry forwards over £0.5m), services can carry forward underspends to the next

year in the form of reserves. Only in exceptional circumstances, and with Cabinet approval, will reserves be carried forward for more than one year

8.2 Asset Management

Key Policies and Assumptions (xix)

A strategic approach to Asset Management decisions will ensure that they take account of the overall balance of spend and resources reflected in the Council's medium term financial planning projections.

Good Asset Management is vital because it is central to determining how the Council uses all of the resources at its disposal. Property remains the Council's most valuable corporate resource in financial terms and the level at which we decide to maintain our property base has a significant impact on other resource/spend decisions.

The Council's aim is to maintain a medium term strategic plan for its property requirements to meet service delivery and other Corporate needs, including corporate co-ordination of all property and a fundamental and systematic review of property. Decisions to invest in and disinvest from assets need to be informed and rational rather than provisional and ad hoc and this relies upon reliable medium term information and centralised decision making. Our property repairs decisions need to be appropriately prioritised through a corporate and integrated approach to property management and work is in place to ensure this.

The Asset Management Strategy will identify the required model and location of service delivery with the pattern of current property holdings. This will enable the identification and prioritisation of spending requirements and the compilation of a rational Capital Programme.

In terms of the MTFs, the strategic plan for property needs to take account of the overall financial position of the authority including the overall balance of ongoing spend and resources and the level of reserve balances. Good asset management will be a key component in delivering a sound long-term financial position.

8.3 Risk Management

Key Policies and Assumptions (xx)

The medium term financial and policy planning processes will identify and assess any known major risks in the context of the overall financial standing of the authority.

The medium term financial planning process and any decisions need to ensure that the more strategic financial risks are recognised and assessed. Such risks need to be considered alongside such things as our asset management policies, our involvement in any new major developments, the availability of other contingency funds, the strength of financial reporting arrangements and the adequacy of the authority's insurance arrangements. We should be explicit about any major risks involved in the MTFs and whether they are being avoided, accepted or managed. The recent adoption of quarterly monitoring of the Corporate Risk Register will produce a robust risk management mechanism enabling the linking of known risks with Policy and Financial Planning decisions and the level at which reserve balances are held.

9. Council Tax

Key Policies and Assumptions (xxi)

The Council Tax should be set at as low a level as possible consistent with achieving the Council's Vision and Corporate Objectives and reflecting its stated values.

Determining the level at which the Council Tax should be set involves consideration of a number of factors. The prevailing levels of inflation as they apply to Council services, pressure on budgets from legislative or demographic sources, the amount of resources provided by Government grant, the desire to achieve improvements in service delivery and the wish to keep to a minimum the amount that Council Tax payers have to pay, are just some of the items that have to be taken into account.

As a result there can be no guarantee that specific plans made now for Council Tax levels over a three year period could be delivered. What can be determined is a guiding principle for the setting of Council Tax. That principle should combine the intent to set at as low a level of Council Tax as possible with a commitment to fulfil the Council's statutory duties and achieve its Vision and Corporate Objectives.

10. Consultation

Key Policies and Assumptions (xxii)

We will continue to pursue the most effective forms of consultation with stakeholders and feed the results into our medium term policy and financial planning decisions.

It is essential that the Council's medium term policy and financial planning process is informed by consultation with the wider community. The Council's Corporate Objectives have already been shaped and prioritised through consultation and such consultation is equally important when more detailed budget preparations are being discussed.

Two types of consultation have been used in the recent past. One has involved obtaining the views of members of the public through completion of questionnaires. The other has been through meeting with specific groups (Trades Unions, Business Ratepayers, School Heads and Voluntary Organisations for instance). Different ways of consulting are currently being investigated and if these appear to offer an improvement on existing methods then they will be explored further, and approval sought from Members to proceed with them.

Consultation forms a key part of the budget setting process and this is included within a diagram of the budget setting process in Appendix 1.

11. The Medium Term Revenue Position

Key Policies and Assumptions (xxiii)

We will aim to plan for a balanced revenue programme over the medium term.

The table below shows the revenue programme position as set out in the General Fund Budget report, presented to Cabinet in February 2005.

	2006/07 £m	2007/08 £m
Potential Resources Shortfall	19.2	24.9
Funded by		
Contributions from reserves	(4.0)	(2.0)
Council Tax increase at 2.5%	(2.4)	(4.8)
Remaining Shortfall	12.8	18.1

The budget report identified that Management Board intended to explore a range of options in order to deliver the necessary savings to achieve a balanced budget in the medium term. These will include

- transformation of service delivery,
- efficiency savings and service reductions
- continually pursuing a strategy to utilise any in year underspends, where these do not impact adversely on service delivery, to contribute towards the medium term position.
- continuing to review all reserves to ensure that they are being applied in a way that is consistent with Corporate priorities.

Management Board will be looking at all the Council's services with a view to ensuring that they are delivered in the most efficient and effective way to ensure value for money for the people of Coventry. Examples of how some of these changes may take shape are outlined below.

- The Coventry Direct agenda changes the way that services will be delivered, focusing on the needs of the customer, this will fundamentally change the way that front line services are provided. The same principles can be applied to support services and back-office functions. The Council has already delivered significant savings, by centralising a number of functions, removing duplication and sharing knowledge. Much can be done to build on this work and realise further savings as outlined in this section.
- Electronic Document Management Systems (EDMS) has been introduced into Housing Benefits and is being rolled out to Local Taxation. EDMS allows paper to be stored electronically, reducing the need for filing and storage space. The application of EDMS throughout the Council could give the opportunity to reduce our accommodation requirements by up to a quarter, delivering savings over the medium-term. In addition EDMS also allows for all correspondence to be handled appropriately and in a timely manner. The management information provided can also be used to identify training needs and to measure staff productivity. Useful benchmarking information can be secured to demonstrate value for money or identify areas to be targeted for efficiency savings.
- Procurement savings have been highlighted as part of the Government's Gershon efficiency review. Coventry City Council is already part of the UK's largest Local Authority Buying Consortium and has adopted much of the recommended best practice. The rollout of the I-Procurement system, to be completed by December 2005, will provide savings in transactional costs, and provide invaluable management information that will enable the Council to reduce off-contract spend, reduce our supplier base, aggregate expenditure and establish additional framework contracts.

Through these mechanisms Management Board are targeting a reduction in procurement spend of 2.5% in line with Gershon targets.

- The Council currently supports and manages some 3,000 systems to manage its information needs and deliver services. All primary systems, with the exception of schools' index and own systems, are managed within the ITNET contract, however there remain a large proportion of minor systems that have until recently been undocumented and not notified to the contractor. The Council is working to rationalise its systems and Management Board are looking to maximise savings in this area over the medium term.
- Many of the Council's processes are complex. Over time processes are enhanced and changed to address problems that arise or to minimise the likelihood of error and become inward serving. Current emphasis is on operational processes that effectively manage risk whilst retaining external focus, delivering a level of customer service that is of a continually high standard. This refocus on design of operations is embraced in the Coventry Empowered programme and Management Board anticipate significant savings being achieved from these changes in operations in the future.
- The opportunities to make savings identified by Management Board will require significant planning, work and skill if they are to deliver the targets identified. A fund of £1m has been earmarked from within existing reserves. The project will be championed by the Chief Executive leading a dedicated group of Council staff who will call on expertise from both within and outside the Council as required

As the Policy and Planning Process moves forward, the Management Board will report to Members on the latest financial forecasts that take on board the latest estimates of spending needs, savings and resources. The Management Board will continue to work towards the strategy of delivering a medium term balanced position – this will require a continuation of the reviews of services and identification of efficiency savings, coupled with an emphasis on value for money.

12. The Medium Term Capital Position

Key Policies and Assumptions (xxiv)

We will aim to plan for a balanced capital programme for the following financial year and a sustainable programme over the medium term.

The following table shows the Capital programme agreed as part of the 2005/06 budget. The programme includes a number of schemes that have been approved on a provisional basis only.

	2006/07 £m	2007/08 £m	2008/09 £m	2009/10 £m
Total Spend	79.3	54.0	22.0	16.6
Total Resources	(65.3)	(49.0)	(24.3)	(15.2)
Cumulative Resources Shortfall/(Surplus)	14.0	19.0	16.7	18.1

It shows a cumulative gap of £14m in 2006/07 rising to £18m by 2009/10. The full programme is included at Appendix 3.

In view of the Council's significant asset holdings, the aim is to ensure that there is a balanced Capital Programme for the following financial year and a sustainable programme over the medium term. The three fundamental choices that will enable us to balance the programme for the next financial year are

- reducing and/or rescheduling the overall level of spend within the programme,
- identifying further capital receipts, and
- Prudential Borrowing.

These choices will be made in the light of key policies and assumptions within the MTFs.

In order to facilitate this process, the Council's Capital Working Group, who regularly monitor the Capital Programme and make recommendations to the Management Board has reviewed the programme in light of the out-turn performance and on-going financial pressures. A review of property and asset holdings is also underway and these will form the basis of recommendations for members.