
Report to

Scrutiny Board 1
Cabinet
Council

29 August 2007
11 September 2007
18 September 2007

Report of

Director of Finance and Legal Services

Title

The Medium Term Financial Strategy 2007-2011

1 Purpose of the Report

- 1.1 This report presents a Medium Term Financial Strategy for 2007-2011 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 The 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 Council approve the Strategy as the basis of the City Council's medium term financial planning process.
- 2.3 The Council is asked to approve the Strategy as the basis of its medium term financial planning process.

3 Information/Background

- 3.1 Coventry City Council has operated medium term financial planning for many years and Council formally approved the current medium term financial strategy in October 2006. This report recommends that the attached updated strategy be adopted to support the medium term policy and financial planning process that is at the heart of setting our revenue and capital budgets.
- 3.2 The Strategy has two main objectives;
- To enable our financial plans to support the delivery of the objectives laid out in the Corporate Plan.
 - To set a sound financial planning framework to underpin the effective financial management of the Council.
- 3.3 The Strategy concentrates on the strategic direction of our financial planning framework, the main points of which are shown in section 5 of this report.

- 3.4 Under the City Council's Constitution, it is full Council that 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 capital expenditure. Since this area is covered within the Medium Term Financial Strategy, it therefore needs to be formally approved by full Council.
- 3.5 The Local Government White Paper, published in 2006, accepted that the current "annual cycle of grant allocations has made it more difficult for local government to budget and manage expenditure. We have already begun the move to three-year formula grant settlements. These will provide local government with the opportunity – which we would expect it to take – of publishing three-year council tax figures. The first full three-year formula grant settlement will cover 2008-2011."
- 3.6 The White Paper also noted that "Greater stability of funding for local government provides an opportunity for a step-change in the funding and procurement relationship between local government and the third sector. This is essential if we are to see a strong and vibrant third sector working with local government to achieve many of the aims set out in this White Paper. The general starting point will be three-year grant funding, except where this does not represent best value in individual cases, and in terms of overall affordability. This will be supported by key Compact funding and procurement principles and best practice guidance for local government on third sector funding. This will also build on existing Treasury guidance, developed in partnership with the LGA, the Audit Commission and Chartered Institute for Public Finance and Accountancy (CIPFA)".

4 Proposal and Other Option(s) to be considered

- 4.1 The Strategy is intended to support the financial planning process in enabling 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 help the Council continue to improve its services and the quality of life in the City while offering the people of Coventry the best possible value for money.
- 4.2 By approving this revision, members will be replacing the Strategy that currently exists.

5 Other specific implications

5.1 Finance

5.1.1 A broad overview of the Strategy would conclude that there is continual pressure on our budgets caused by increasing policy expectations and service pressures at both a local and national level. In order to produce a balanced medium term financial programme the Council will need to continue to identify savings on an ongoing basis. This will be achieved through robust scrutiny of our budgetary position, resource switching between areas of expenditure and through securing greater value for money in the way we deliver services.

5.1.2 Other broad principles that underpin the Strategy include

- Budget setting decisions that are driven by our Corporate Objectives
- Delivering financial programmes in a corporate way at officer level through the Management Board.
- Council Tax increases broadly in line with inflation over the medium term
- Increased efficiency and reduced costs so that we can continue to move our Council Tax levels towards the metropolitan district council average.
- Maintaining reserves at a minimum level consistent with implementing specific policy outcomes and protecting against known or anticipated liabilities.

- Moving towards a golden rule of not using one-off resources to support ongoing expenditure.
- Operating a formal objective framework for establishing our Capital Programme to help move towards presenting a balanced position into the medium term.

5.2 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.

5.3 Trade Union consultation

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

5.4

	Implications (See below)	No Implications
Neighbourhood Management	✓	
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	✓	
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 The Strategy will be reviewed and re-approved each year to ensure that it remains relevant.

7 Timescale and expected outcomes

7.1 It is intended that the Strategy's key principles will be implemented within the current cycle of the policy and financial planning process. The Budget Requirement and Capital Programme report that will come to Council in February 2008 will embody these principles and will potentially impact upon all the aspects of the Council's operations in 5.4.

	Yes	
Key Decision	✓	
Scrutiny Consideration (if yes, which Scrutiny meeting and date)	✓	29th August
Council Consideration (if yes, date of Council meeting)	✓	18th September

List of background papers

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Papers open to Public Inspection

Description of paper

Location

None

Coventry City Council

MEDIUM TERM

FINANCIAL

STRATEGY

2007 - 2011

September 2007

Coventry City Council's Medium Term Financial Strategy 2007 - 2011

1 Introduction and Objectives

1.1 This strategy supports the medium term policy and financial planning process that is at the heart of setting our revenue and capital budgets.

1.2 There are two main objectives for the Strategy

- To enable our financial plans to support the delivery of the objectives laid out in the Corporate Plan.
- To set a sound financial planning framework to underpin the effective financial management of the Council.

1.3 Appendices 1 and 2 of the Strategy show our initial medium term projections for revenue and capital at the start of the 2007 policy and financial planning process.

2 Key Principles - The City Council's Approach to Financial Planning

2.1 The City Council's Medium Term Financial Strategy is underpinned by the following fundamental principles:

- All of our resource allocation decisions will arise directly from and be driven by our policy priorities (see 5.1).
- Our revenue and capital programmes will be set within a corporate decision making process with advice from the Management Board to Cabinet (5.3).
- We anticipate that Council Tax levels will increase broadly in line with inflation over the plan period and that this will move us out of the bottom quartile next year and help us to become an average Band D Council Tax authority over the medium term (see 4.6 & 4.7).
- The Council will continually seek to identify savings and efficiencies and will implement these at the earliest opportunity. This approach will be supplemented by a detailed annual exercise to set budgets, identifying any necessary changes to base budgets and agreeing new areas of spend and savings (see 6.2 to 6.9).
- We will optimise our reserve balances within a corporate decision making process to deliver the City Council's objectives, maintaining a minimum level to cover any risks that face the City Council and moving towards a "golden rule" of not using one-off resources to support ongoing expenditure (6.18 to 6.22).
- Our Capital Programme will use a formal objective framework for assessing potential capital schemes where these schemes are competing for resources and where there is local discretion over their application (6.25).

2.2 Our approach to Financial Planning will have the following characteristics:

- We will seek to achieve balanced revenue and capital programmes over the medium term.
- The Medium Term Financial Strategy will be widely understood and owned by members and managers.
- An understanding of finance will be owned and built into all areas of Council activity.
- Our medium term financial plans will be informed by assessment of the risks facing the City Council when it sets its budgets.
- Revenue and capital decisions will be considered together within our budget setting process.
- We will operate a clear framework of accountability and delegation. All budgets will have a designated budget holder. Monthly revenue budgetary control reports will be made to Directorate Management Teams and consolidated in reports to Management Board. Quarterly revenue and capital positions will be reported to Cabinet and Scrutiny.
- We will operate a Project Management approach for large schemes including a specific focus on cost control.

3 The Local and National Policy Context

- 3.1 Within the Audit Commission's Comprehensive Performance Assessment framework, Coventry has achieved significant improvement over recent years across a wide range of services, resulting in our being classified as a 3 Star Council which is Improving Well. We are committed to consolidating the improvements that have occurred and to achieving further advancements in the quality of our services and how these are perceived.
- 3.2 To underpin these improvements we have sought to develop and refine our approach to Financial Management in order to support our modernising agenda and maximise value for money. Section 2 of this strategy briefly outlines our over-arching approach to Financial Planning. Crucially, this approach incorporates the principle that revenue and capital decisions will be considered together.
- 3.3 The forthcoming Comprehensive Spending Review will be one of the most significant events in Local Government Finance in recent years. Not only is it expected to deliver a three year settlement arrangement but it comes at a time when Government is looking to slow down its investment in public services generally. It is anticipated that sectors such as Health and Education will receive settlements that are more generous than those for the remaining sectors, including local government.
- 3.4 Within the context of wanting to improve further as a Council, we share the desire of national government that we will achieve continuous improvement in quality at the same time as year on year increases in efficiency. However, where national government issues us with additional responsibilities this transfer of responsibility is not always matched with the funds that we perceive are required to fulfil them. In short, there is an expectation that we will achieve more with proportionately fewer resources. Clearly, our Financial Strategy needs to reflect this.
- 3.5 There are regular shifts between local government, national government, regional bodies and other accountable organisations in the responsibility for and funding of locally delivered functions. The intention to transfer the funding of 16-19 Education back to local government from the Learning and Skills Council is an example of a previous such shift being reversed. Our financial plans will continue to anticipate and flex with these arrangements.
- 3.6 Other areas where the dynamics of funding are continually changing include
- Complex grant arrangements as the government pilots new initiatives e.g. Standards Funds, Big Lottery.
 - Experiments in new forms of governance at local level e.g. New Deal for Communities (NDC) and Local Strategic Partnerships (LSPs) – some with complex financial arrangements.
 - Increased use of partnership approaches e.g. Private Finance Initiative (PFI), Academies and Local Area Agreements.
 - The promotion of Joint Commissioning with the Primary Care Trust.

All of these developments affect the way in which we manage our finances and demand flexibility in the way we work.

- 3.7 Coventry was one of 21 pilots when Local Area Agreements (LAA) were introduced in 2005. Local Area Agreements are designed to be a contract between central and local government to deliver both central and local priorities and a vehicle for allocating significant amounts of area based funding. As of 2007, all areas in England will have Local Area Agreements. The current LAA framework consists of four blocks - Children and Young People, Safer and Stronger Communities, Healthy Communities and Older People and Economic Development and Enterprise. Within the Coventry Partnership, the Local Area Agreement, along with the Coventry Community Plan, aims to improve the quality of life and services across the city and narrow the gap between priority neighbourhoods and the rest of the city. The Council is a key player in this work and recognises that to be successful in delivering its vision and corporate objectives it is necessary to work in partnership with the local public, private, voluntary and community sectors. Having recently been one of 17 councils invited to "Roadtest" the second phase of Local Area Agreements which may be then fixed in relation to subject "blocks", we are hopeful that there will be opportunities for using the LAA more constructively to target resources to priorities across the City. However we are awaiting detailed guidance from government on the financial arrangements for the new LAAs.
- 3.8 The City is currently developing plans that will enable it to help fulfil the government's agenda for providing more housing across the country. This is incorporated within our emerging Local Development Framework incorporating a wider local growth agenda that will have a significant impact on the size of the City. Inevitably this includes consideration of the potential impact of growth upon all the council's services – for example a growing city may require more schools and leisure facilities; changing demographics may result in changes of need for social care; and more households will require refuse and recycling collections. As this agenda progresses this will affect the level of funding required for individual services and the balance of the resources that we generate locally and those that that are provided through government. Our financial plans will need to accommodate these changes as they affect the City Council.
- 3.9 The Government has recently announced 10 pilot areas where local residents will determine spending priorities for a ring-fenced element of local budgets. The long-term aim is to roll this out to all areas within 5 years. Depending upon the way this initiative develops, it could have a significant impact on the way in which we set local budgets. Although Coventry is not one of the pilot areas we will need to anticipate developments in this area and be in a position to respond to them.
- 3.10 Although schools budgets (traditionally the biggest single item of spend) were taken out of Councils' control in April 2006, Coventry schools continue to wish to work in partnership with each other and with the City Council. The revised financial arrangements do not remove the significant financial impact that schools' funding has on the dynamic of the Council's financial position.
- 3.11 There is a particular shortage of capital for Local Authorities. In many areas the public infrastructure is decaying and/or needs regenerating. Public funds are stretched to deliver these needs without new approaches being adopted. The Prudential Code provides some flexibility by relaxing controls on borrowing but at a significant revenue cost. Increasingly, large capital projects depend on specific external grant and/or complex partnership arrangements e.g. the Street Lighting PFI and the Swanswell Regeneration Project. In

addition, Coventry has been awarded funding under the Building Schools for the Future initiative that will transform educational provision in Coventry through rebuilding and refurbishment programme covering all secondary and secondary special schools in the City. Nevertheless, this does not alter the fact that resources are scarce across the remainder of the programme and a Strategic Capital Working Group is currently exploring alternative ways in which we can resource our Capital commitments.

- 3.12 Every local authority is faced with a set of local circumstances and a local policy context. Council members will set the Council's policy direction to reflect these local circumstances and this policy direction will influence the allocation of resources.
- 3.13 The Council has a robust performance management framework underpinned by its Corporate Plan, Cabinet Member Strategic Plans and Operational Plans. The Council continues to ensure that its approach to business planning helps to co-ordinate the various facets of operational and financial planning.
- 3.14 There is widespread internal communication and consultation on all Council plans and strategies and they must all go through the Cabinet approval process. The Local Development Framework will provide the context to the physical planning of all developments within the city, including those by the City Council. Consideration of property issues (where relevant) is a requirement of all reports to Cabinet Members. The Capital Working Group provides a forum for the discussion of service and corporate plans and strategies.

4 Financial Context

Government Grant

- 4.1 Over 55% of funding for our net budget is provided through Revenue Support Grant (RSG) from Central Government. This position has changed significantly following the removal of funding for schools from the RSG – in 2005/06 Government grant was 74% of net budget.
- 4.2 Whereas the 2-year settlement covering 2006/07 and 2007/08 allowed us to make our financial projections over this period with some certainty we have now entered a period of considerable uncertainty. The Government is currently carrying out a comprehensive spending review across all spending sectors that we anticipate will give us a relatively firm indication of the resources we can expect to receive from them over the period 2008/09 to 2010/11. However, these allocations are not due to be announced until the Autumn of 2007 and until that time our financial plans will be based upon estimates of what we think will happen. We anticipate that when the plans are announced we will be in a position to plan with a significant degree of certainty for the following 3 years.
- 4.3 The Lyons Inquiry into Local Government was published in March 2007. The report's main financial recommendations included the retention of the Council Tax as a means of local tax raising, the abolition of capping on Council Tax rises, the revaluation of domestic property for Council Tax purposes and the adding of new property bands to the top and bottom of the tax structure following any such revaluation. However, the report concluded that revaluation was not the most urgent priority and Government ministers almost immediately rejected the end of capping. Therefore, it is unlikely that the report will have any significant financial impact upon Local Government's financial position over the short to medium term. In turn this means that the Comprehensive Spending Review will be the prime source of information in planning our financial resources position over this period.
- 4.4 This combination of circumstances continues to make medium term financial planning somewhat difficult. We do know that economic forecasts suggest a tightening of national and local government funds in the forthcoming spending review and that there is also likely to be competition for government funding, especially from the Health sector. Also, in establishing the level of funding available to local government, Central Government is making assumptions that we will identify and capture efficiency savings in order to recycle resources to fund essential services. The financial projections in Appendix 1 are currently framed by a view that the resources from Government will not grow in real terms. As more information is gained during the budget setting process our rolling medium term projections and future medium term financial strategies will be updated accordingly.
- 4.5 Like other public sector services we face a situation where demands on our services outstrip the available supply. This is particularly true in social care, where demographic pressures are likely to continue to increase demands over the medium term. Elsewhere we face pressure to change the shape and level of service provision in response to societal or Government expectations such as for waste disposal and recycling. Changes in legislation or new government initiatives can increase pressure on existing budgets without explicit associated funding being identified to pay for the changes. In addition, perceptions that our current level of service is not sufficient to meet existing policy commitments can lead to local pressure to improve or increase the level of service we

provide. What this means is that even without any explicit policy developments there is continual pressure on existing budgets from a variety of sources.

Council Tax

- 4.6 The remainder of the funding for our net budget (45%) comes from the Council Tax and each 1% rise in Council Tax raises about £1m in additional revenue to support the Council's budget. Although the setting of Council Tax levels is notionally a local decision, there is a national constraint in that Government has in effect imposed a capping limit of around 5% in recent years. **Given the response to the Lyons Inquiry it is a reasonable expectation that this will continue over the medium term such that 5% represents the upper limit that could be considered for Coventry's Council Tax rises.**
- 4.7 There is a pressure to maintain the real value of income secured through Council Tax in order to help maintain existing levels of local services. At the same time, Council members and local taxpayers will generally have a preference for Council Tax to be maintained at reasonable levels. In addition, in determining the level of Revenue Support Grant that they pay us, the Government assumes that we will increase our Council Tax levels by broadly the rate of inflation over the plan period. **For financial planning purposes only we will continue to assume a Council Tax increase of 2.5%. Any decision to set a Council Tax that does not broadly match these assumptions would need to take into account the consequent impact upon the wider budget setting process.**
- 4.8 One further consideration is the City's level of Band D Council Tax – the measure that the Government usually uses to compare Councils nationally – relative to other local authorities. Coventry has historically been in the least well performing quartile for metropolitan district authorities' Council Tax levels and currently has the 7th highest Band D Council Tax out of 36. **Our aspiration is to increase our efficiency and reduce our costs so that we can continue to set a Council Tax rise below the metropolitan district average.** We anticipate that this will move us out of the bottom quartile next year and help us to become an average Band D Council Tax authority over the medium term. It should be noted that 70% of the City's dwellings are in bands A and B so that the majority of Coventry's Council Tax payers will pay less than the Band D charge.

The City Council's Financial Position

- 4.9 Based on these over-arching funding expectations, the City Council's medium term financial position for revenue and capital are outlined in the attached Appendices 1 and 2. They are broadly based on the Budget Report taken to Council in February 2007.
- 4.10 **The revenue position in Appendix 1 uses a financial planning assumption of Council Tax rises of 2.5% and reserve contributions of £2m in 2008/09 and zero in 2009/10 and beyond. It identifies the sources of further savings and resources that are required over the next three years.**
- 4.11 Notwithstanding the uncertainty surrounding SR 2007, it is clear that the City Council will face a significant challenge to deliver a balanced revenue programme. If the eventual Government Settlement and the outcome of individual issues such as the Local Authority Business Growth Incentive scheme are not favourable, the potential range of this challenge could be between £7m to £15m in 2008/09. This scale of problem, even at the

lower end of the range, presents a position that means we are unlikely to be able to achieve all of our existing policies and will be faced with a fundamental change to some of the services we provide and/or the way we provide them.

- 4.12 The Council will meet the appropriate standards of service that we are statutorily required to provide but at the same time we will challenge all services to increase their value for money and effectiveness. Where this is generated only by financial pressures, our aspiration will be to minimise impact on service outcomes for local people.
- 4.13 A significant amount of work is underway to identify new savings although none of these have yet been specifically included in the financial projections. We will seek to implement these at the earliest opportunity and subsequently identify any necessary changes to base budgets and agree new areas of spend and savings within our detailed annual budget setting process. All of these resource allocation decisions will continue to be informed by our policy priorities and will be considered within the parameters of corporate decision making. The savings will help deliver the overarching savings line in Appendix 1 that references the Council's Gershon efficiency targets (see para 6.9) and we are already moving therefore towards achievement of these targets. The approaches taken to do this are further outlined in section 6 and within the Value for Money Strategy. The size of the financial task in trying to balance the revenue programme should be viewed in this context.
- 4.14 **The medium term capital position shown in Appendix 2 assumes current projections of resources and the application of the approved 2007/08 programme. We have identified that further resources or reprioritisation of spend is required over the medium term.** It is essential that work is undertaken by the Strategic Capital Working Group and within other forums to consider ways of generating resources prior to the Council embarking on any major new capital developments that we want to pursue in the future.
- 4.15 It is important to remember that these financial models have been produced within a dynamic financial environment and that they are likely change significantly over the coming months. Our approach to balancing these programmes and to giving members the flexibility they need to implement policy priorities is outlined in sections 5 and 6 below.

- 5 **Key Messages In Managing the Revenue and Capital Programmes**
- 5.1 **The Council sets its key financial objectives in response to our Corporate Plan, Cabinet Member Strategic Plans and Operational Plans.** These are all influenced to differing degrees by local priorities, input from public consultation, Government policies, performance information and external inspections. The allocation of revenue and capital resources must respond to meet these objectives and it is essential that our spending decisions arise directly from and are driven by our policy priorities.
- 5.2 **The Council's budget planning will be open to public consultation to include voluntary and community groups, trades unions, schools, the business community and key interest groups such as older people and younger people.** This process is intended to help the Council make fair and transparent decisions that reflect the needs of the local community. The Council is committed to a process that improves trust between different groups within the community as a central part of ensuring strong community cohesion.
- 5.3 **The Management Board is the key executive body in the process of advising the Cabinet on establishing our revenue and capital programmes.** Through this forum and then through Cabinet we will ensure that a corporate approach is taken to all revenue resource switching and capital investment decisions.
- 5.4 **Revenue and capital bids for corporate resources are considered within the same broad planning process and capital investment decisions will be taken with full regard to the revenue spending consequences both in terms of service delivery and the cost of capital investment.**
- 5.5 The Government provides us with revenue funding for an amount of borrowing that is referred to as the Single Capital Pot. **We will give due regard to national priorities that Single Capital Pot resources are targeted towards whilst recognising that some local flexibility may be applied in ensuring that local policy objectives are also met from these resources.**
- 5.6 **Capital investment decisions will give due regard to the Council's Property Strategy and up to date asset management information.** Decisions will be aligned to the Council's Corporate Objectives via a robust prioritisation process.
- 5.7 In setting our revenue and capital budgets we will take full account of the key financial and other risks facing the City Council through the use of our **Risk Management Strategy.**

6 Approaches to Balancing Future Years' Programmes

- 6.1 It is clear from the national and local context and from the current financial position that the Medium Term Financial Strategy is key to matching scarce resources to priorities. There is a need to set a balanced revenue budget for all years in the 3 year plan and our overall approach to managing these issues is summarised in the diagram in Appendix 3. The overall process will ultimately need to incorporate key new policy issues that support the Council's objectives that are not yet apparent in the financial projections shown in Appendices 1 and 2. We need to be clear though that each additional £1 of spend incorporated will require a saving of £1 to be identified elsewhere.

Identification of Savings

- 6.2 In order to balance the likely financial constraint that will be imposed upon us by Government and a clear local preference to keep Council Tax at an acceptable level, there need to be robust actions to enable the Council to deliver a lower cost base than currently exists in some services. The over-arching message is that the Council will need to continue to identify savings on an ongoing basis.
- 6.3 This Strategy sets out an approach to the achievement of savings generated from several sources but all intended to achieve the same aim of delivering the best combination of service delivery and cost that we can achieve.
- 6.4 We will continue to undertake robust scrutiny of ongoing budgetary control and financial outturn reports to identify any underlying under-spending in City Council budgets. **Our budgetary control processes facilitate regular and thorough analysis of budgetary performance** and this will be used to identify any individual circumstances where budgetary provision and the existing level of service are no longer aligned.
- 6.5 We will pursue service reviews and other action to deliver savings. Our traditional approach to the identification of savings has encouraged management teams and Management Board members to analyse their services to seek more cost effective ways of delivering them. Savings identified through this route have traditionally been delivered through a combination of genuine efficiency savings in operations or management structure and resource switching involving the transfer of resources from budgets of a lower priority to those with a higher priority with the potential for some degree of service reduction where this is broadly consistent with our policy priorities. **It is intended that managers will continue to identify savings at a local level through efficiency savings and corporate resource switching as well as any new or additional sources of income that are available to us.**
- 6.6 In order to strengthen our approach to securing greater value for money, the City Council's VFM Team is implementing and embedding approaches to improved value for money across the City Council. **The Value For Money Strategy adopted by the Council in July 2006 sets out the approach to this task in more detail, including the identification of long-term savings achieved through reviews of specific services.** The intention is that these savings will deliver significant long-term benefits to the City Council. This approach is intended to dovetail with the work referred to in section 6.5 and to ensure that all spending and not just spend at the margins is regularly reviewed. The work of the VFM Team in particular gives an opportunity to achieve this.

- 6.7 At its meeting on 28 August 2007, Cabinet approved the establishment of a Value For Money Partnership with PriceWaterhouseCoopers that will enable us to share their expertise in undertaking a number of targeted reviews of service areas and functional processes across the City Council. This work will complement the existing approach adopted within Directorates and through the VFM team but will increase the capacity to undertake the work and offer an additional external perspective informed by similar reviews at other authorities.
- 6.8 Expectations upon the City Council to deliver efficiency savings and manage real terms reductions in resources will inevitably lead to an exploration of how our external partners can do likewise. **As well as looking within areas of activity that are wholly within our control we will look in a transparent way with partner organisations to identify how they can help to work within increasingly challenging financial circumstances.** The impact of this will depend upon the nature of the financial relationship between us. For instance, the City Council provides financial support to a number of organisations in the form of direct funding either via a grant or on a more contractual basis. In these circumstances it is likely that even where we maintain a constant policy commitment to supporting these organisations, the amount of support that we provide may need to be reviewed, for instance, by pegging grant increases below prevailing inflation indices. For other organisations, the impact of policy changes that the City Council may make, (for example within our social care services) may impact upon other major bodies within the City (eg the PCT). Clearly, in both sets of circumstances, any such decisions need to be made in an open and transparent way and need to be clearly communicated with those bodies affected.
- 6.9 Importantly, the work outlined above will help to achieve the targets set by Government in relation to the Gershon Review of public sector efficiency. **We anticipate that the Spending Review 2007 will confirm the need to achieve year on year efficiency savings of 3% of budget and that this may be built into Government assumptions of our spending needs and our ability to absorb the increasing demands upon our services outlined in section 4.5.** Therefore, it is essential that this Medium Term Financial Strategy includes the intention to meet these savings targets, reported through the Government's Annual Efficiency Statement process.

Partnership, Procurement and the Local Area Agreement

- 6.10 The City Council has a history of innovation in harnessing external funds to deliver priorities and an excellent track record of partnership working. A significant proportion of the City Council's activities are now partly or wholly delivered through partner organisations or with specific external funding streams. The most striking recent example of this type of relationship is the establishment of the Ricoh Arena. There are numerous other individual projects and ongoing services that also fall into this bracket including Section 31 agreements, our Waste Disposal partnership and CVOne – our City Centre Management company partner. As part of Value For Money agenda we will need to assess the value of delivering shared services in specific sectors where we consider this to be an appropriate way forward. **We will continue to search out new options for partnership working and harnessing external funds to ensure service excellence and the achievement of value for money.**

- 6.11 Coventry's Local Area Agreement is expected to become increasingly important as a contract between the Government, the Coventry Partnership and the City Council to deliver both central and local priorities. The Local Area Agreement should lead to greater flexibility in the ways that government and other funding can be used locally once we have received the anticipated further guidance.
- 6.12 There are increasingly important developments at sub-national, regional and sub-regional levels that are having a significant impact on policy development and resource allocation decisions. The City Council is committed to maximising the partnership, service and financial opportunities that rise out of these developments insofar as they accord with national and local priorities. This will encompass developments such as Multi Area Agreements and alternative resource allocation mechanisms that change the traditional shape of the way we receive our funding. We will incorporate the impact of these developments into our service and financial plans as they arise.
- 6.13 **Our policy on external funding is to seek additional resources wherever they are appropriate, available and consistent with our overall plans.** The full impact of bidding for external resources should be considered including the resource impact of producing the bid and managing the resulting regime and any matched funding or leverage requirements. Bids for attracting such resources must be supported by robust exit strategies that pay regard to the ending of external funding. We will seek to change our existing service provision to meet needs that have been met by temporary external grant funding if this is justified by our policy priorities.
- 6.14 In recent years we have been able to take advantage of non ring-fenced external income streams such as Public Service Agreement Performance Reward Grant and the Local Authority Business Growth Incentive scheme. We remain committed to maximising the resources that can be achieved through these mechanisms and will build their impact into our medium term financial plans as soon as we become aware of their likely scale.
- 6.15 **We will seek to maximise partner contributions towards projects and services (e.g. developer contributions within Section 106 agreements) as appropriate within the context of the individual area under consideration. We will observe the ring-fenced grants that are made to support specific revenue expenditure programmes.**
- 6.16 **A guiding principle of the City Council's Procurement Strategy is that the delivery of best value is more important than who provides the service.** There is an opportunity to engage in the "make or buy" debate within the service reviews (6.5 above) or at the outset of each capital project upon which we embark. For each project, consideration will be given to the most appropriate role for the Council (implementer, partner, facilitator) and the most appropriate procurement method (eg procuring works or assets outright or through a partnering arrangement, leasing assets or using contract hire, grant aiding other bodies; forming a joint venture companies or using PFI and PPP approaches).
- 6.17 **Our base assumption is that fees and charges will be maintained at least existing real-terms levels by increasing them each year in line with prevailing inflation indices.** The financial pressures or other service requirements faced by the City Council may mean that we consider increasing the financial contribution made from some fees and charges and other income generating opportunities but this will only be done after taking into account all relevant circumstances. We will need to consider the objectives of

the service especially where they incorporate competing priorities such as cost recovery versus a primary service objective or competing public service benefit. The context of whether the service is statutory and whether it has the ability to charge or has free access set by central government is also important. A range of other information will be considered including existing levels of competition and demand, benchmarking, stakeholder and user information and any financial analysis of the impact of charging decisions.

Reserves

- 6.18 **We will seek to optimise the use of our reserve balances in delivering the City Council's priorities, using a corporate decision making process to 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.
- 6.19 Specifically, our approach will be informed by
- **An intention to hold reserves corporately with a clearly identifiable purpose designed to support the delivery of the council's objectives.**
 - **The need to maintain a minimum level of reserves as insurance against an overall level of risk or liability faced by an organisation of the City Council's size. We will maintain an un-earmarked reserve of approximately 1% of the net revenue budget to cover unforeseen financial problems.**
 - **The requirement to hold some reserves to protect against specific known or potential liabilities, but kept to a minimum consistent with adequate coverage of those liabilities.**
- 6.20 Management Board will consider the application of budgeted amounts that are unspent at the year-end on an annual basis and advise Cabinet accordingly, consistent with the guiding principles above. Management Board will also be provided with a regular report on reserve balances to ensure that the levels of reserves held are consistent with the financial risks faced by the City Council.
- 6.21 **We will seek to move towards a local "golden rule" of not using one-off resources to support ongoing expenditure. This policy will be applied flexibly, subject to the financial demands of specific circumstances.**
- 6.22 **Schools are required to detail how they plan to use reserves in the following year's budget as part of the formal financial reporting process to DfES. The Fair Funding Scheme of Delegation gives the City Council authority to clawback any remaining uncommitted balances over 5% of the schools budget share.** The level, and intended use, of schools reserves is also challenged as part of the formal annual School Performance Review process.

Capital Strategy and Capital Programme Management

- 6.23 The size of the Programme is heavily dependent on the amount of external resources that can be attracted – which are often scheme specific – and the levels of Capital receipts that can be generated. These (especially the external funds) can be difficult to predict over the period of the MTFS.

- 6.24 Given the resource constraints upon us it is essential that our approach to capital planning incorporates appropriate attention to future spending needs and likely resource (funding) flows. Such an approach is essential if we are to continue to develop future investment in the City's public infrastructure in a robust and sustainable manner.
- 6.25 **We will use a formal objective framework for assessing potential capital schemes for inclusion in the Capital Programme where these schemes are competing for resources and where there is local discretion over their application.**
- 6.26 **The City Council will set a 3 year Capital Programme, updated each year, identifying which capital schemes can be funded, and those schemes which although high priority are being held on a reserve list.**
- 6.27 The Council's Management Board have created a corporate Capital Working Group structure supported by a multi-disciplinary group of senior strategic officers, to lead on the Council's management of capital issues. Recommendations made through this structure are developed for consideration by Management Board and Members.
- 6.28 **The Council has a policy of structured land and property disposal that has generated significant resources in recent years and we will continue to dispose of surplus land and operational property and use the receipts to help manage the Corporate Capital Programme.** The policy will be applied in a way that is sensitive to the need to comply with Department for Children, Schools and Families' requirements for the sale of school sites and the need to support regeneration projects within which disposal sites are identified.
- 6.29 **We will also seek to generate receipts from the sale of our least well performing commercial assets to help support the Corporate Capital Programme.** In making disposal decisions we will balance the implications of the commercial rental income foregone against the amount and timing of the potential receipt to be generated.
- 6.30 **We will continue to seek any other avenues that offer potential sources of capital funding. These will include Prudential Borrowing, the Private Finance Initiative and Public Private Partnerships.** The choice of these options will be subject to transparent public decision-making processes. The circumstances in which such decisions may be made will include those where there is an undeniable supporting business case for investment and instances where there is a combination of strong policy commitment, lack of alternative funding sources and carefully considered analysis of long-term financial implications.

7 **Conclusion**

- 7.1 Coventry has a long history of sound financial management. This Strategy is intended to ensure that we maintain these traditions whilst incorporating the significant developments that continue to affect Local Government and Local Government finances. It demonstrates our ongoing commitment to financial management that serves as a springboard for delivering the Council's Vision, Values and Corporate Objectives.
- 7.2 The way in which we work is being affected by two fundamental influences. First, local services are being delivered in an increasingly diverse range of ways that move away from a traditional model of service delivery. Secondly, Value For Money has become a watchword for the way in which we deliver our part of these services. This Medium Term

Financial Strategy reflects these two developments and where appropriate defines our approach to them.

- 7.3 We want to make our services even better and raise the quality of life in the City. At the same time we will strive to deliver these services within a modernising agenda, through the most appropriate delivery mechanism and providing the best value for money that we can achieve.

Coventry City Council

Appendix 1

Medium Term Revenue Projection

	2008/09 £m	2009/10 £m	2010/11 £m
Base Revenue Expenditure Including planned reserve contribution	251	262	269
To be achieved through Value for Money and Service Reviews and Other Action to Deliver Savings (see paras 6.2 to 6.9)	(5)	(10)	(10)
Medium Term Revenue Expenditure	246	252	259
Medium Term Revenue Resources	(246)	(252)	(259)

Appendix 2

Medium Term Capital Projection

	2008/09 £m	2009/10 £m	2010/11 £m
Approved Capital Programme	60	21	15
Resources Identified	(59)	(25)	(13)
Resources To Be Identified/(Available)	1	(4)	2

Appendix 3

Summary of Revenue Programme Dynamics

