

Finance, Corporate and Neighbourhood Services Scrutiny Board (Scrutiny Board 1)	24 th November 2010
Cabinet	30 th November 2010
Council	7 th December 2010

Name of Cabinet Member:
Cabinet Member (Strategic Finance and Resources) – Councillor Duggins

Director approving the report:
Director of Finance and Legal Services

Ward(s) affected:
All

Title:
Medium Term Financial Strategy 2011 - 2014

Is this a key decision?

Yes

Cabinet and subsequently Council are being recommended to approve the Medium Term Financial Strategy for 2011-2014.

Executive summary:

This report presents a Medium Term Financial Strategy (MTFS) for 2011-2014 for adoption by the City Council. The previous strategy was approved in October 2009. The Strategy underpins the medium term policy and financial planning process that is at the heart of setting our revenue and capital budgets.

The Strategy is put forward at a time of massive financial challenges being faced both nationally and locally. The Spending Review (SR) announced by the Government on 20th October confirmed that local government is faced with headline cuts in resources in the region of 27% over four years. It is also clear from the large number of policy developments and reviews announced since the General Election that the Government is taking a new approach to public service provision. This MTFS provides the financial framework to enable the Council to start to

meet these financial challenges and the flexibility to continue to respond to the impacts of Government policy change over this period.

The Council's ABC Transformation Programme is now into its second year and it will continue to be one of the fundamental parts of the Council's response to the current financial and policy environment. However, the scale and pace of the changes facing the Council mean that further radical change is required affecting the range of services that we provide, the organisational structures of these services, relationships with our key partners and our human resources policies.

Notwithstanding the results of the Spending Review, uncertainty remains over much of the detail of how it will affect the Council including the actual Formula Grant settlement that it will receive. Therefore, the impact on the Council indicated in this report continues to be an estimate. More precise Formula Grant settlement and specific grant information is expected to be released over the coming weeks. The possibility remains that the impact is so significant that the MTFS may need to be changed subsequently and this will be kept under review in the coming months.

Recommendations:

- (1) Scrutiny Board 1 is asked to consider this report and forward any comments on it to Cabinet.
- (2) Cabinet is recommended to agree the report, together with any comments from Scrutiny Board 1 that it wants to incorporate, and to recommend that Council approve the Strategy.
- (3) Council is recommended to approve the Strategy as the basis of its medium term financial planning process.

List of Appendices included:

The Medium Term Financial Strategy is appended to this report in full.

Other useful background papers:

None

Has it or will it be considered by scrutiny?

Yes – Finance, Corporate and Neighbourhood Services Scrutiny Board (Scrutiny Board 1) on November 24th 2010

Has it, or will it be considered by any other council committee, advisory panel or other body?

No

Will this report go to Council?

Yes. December 7th 2010.

**Report title:
Medium Term Financial Strategy 2011 - 2014**

1. Context (or background)

1.1 Council previously approved the current MTFS on 20th October 2009. This year's revised Strategy is brought to Cabinet at the same time as the Pre-Budget Report that begins the statutory budget consultation process for the 2011/12 budget. The final statutory Council Tax Setting and Budget Requirement reports will be considered by Council in February 2011.

The objectives of the Strategy are to provide the stable medium term financial base and sound financial planning framework required to enable the Council to:

- Meet the financial challenges posed by the Government's Spending Review.
- Deliver its priorities and the ABC transformation agenda.
- Move towards a more strategic longer-term approach to delivering its revenue and capital plans and deliver effective financial management across all services.

1.2 The Strategy attached to this report in full is set within the context of the Council's commitment to delivering its vision, the Coventry Sustainable Community Strategy and the Corporate Plan. This will be particularly challenging at a time when a much lower level of funding will be available to local authorities through government grant. In order to meet this challenge and to strive to deliver better services, the Council is continuing to implement its ABC Transformation Programme. Over the coming medium-term period the Programme will incorporate a number of fundamental developments to the way we work including the delivery of more efficient and flexible services, greater collaboration with city and sub-regional partners, taking some difficult decisions and increasing focus on our core business and policy priorities.

2. Options considered and recommended proposal

2.1 The challenging financial context that faces the City Council has been detailed in the November 30th Pre-Budget Report to Cabinet and the MTFS is based on the same fundamental financial assumptions. These have been informed by the Government's Spending Review, published on October 20th 2010. Not all the information surrounding future funding arrangements are yet available and it is anticipated that more detail will emerge in the imminent Provisional Settlement and subsequent announcements due over December and January. Within these announcements, significant uncertainty remains regarding the distribution of the Local Government Formula Grant that may yet undergo large late changes resulting from new data and the use of different methodologies used to determine grant allocations to individual authorities. A full review of the entire local government finance system has been announced by Government, to take place next year.

The main planning assumptions are explained in more detail within the Strategy. In summary these assumptions are:

- The establishment of a balanced budget over the medium term.
- A stable and unchanged tax-base
- No increase in Council Tax for 2011/12 but with funding of up to 2.5% provided by Central Government
- Future rises in Council Tax of 2.5% per annum.

- Future Formula Grant figures indicated by SR 2010 – a like for like real terms reduction of over 8% pa but front loaded into the early years.
- Significant reductions in specific grants and the absorption of other grant funding streams into the main government Formula Grant.
- Wholesale changes to school funding which are as yet not known in detail.
- 0% Pay Awards for the next two years (other than for those earning less than £21,000 per year) and 1% in 2013/14.
- A freeze on inflation for standard expenditure budgets for the next two years and increases in income budgets of 1% above the retail price index for the next two years.
- Recognition of specific unavoidable service pressures on an exception basis.

Bringing together the current best assumptions on resources and expenditure, the size of the predicted financial gap is as follows.

	2011/12 £m	2012/13 £m	2013/14 £m
Base Budget	301	307	318
Council Tax Revenue	(120)	(123)	(126)
Formula Grant	(159)	(149)	(148)
Initial Bottom Line Gap	22	35	44

2.2 The outcome of this is that the City Council in common with the public sector as a whole faces a very challenging financial position in the short to medium term and beyond relecting a position of austerity compared with the last ten or so years. This Strategy reflects plans that are already underway and being developed incorporating:

- The identification of service efficiencies and areas of service that will be reduced or stopped through the ABC Programme,
- Political review of services identifying areas of service that can be ended or scaled down,
- The ceasing or scaling back of activity in a variety of previously grant funded areas of service,
- A review of management structures and significant restructuring in some areas,
- A corporate voluntary redundancy and early retirement scheme to facilitate structural change across the Council.
- Collaboration with partners to help achieve alternative delivery mechanisms and strategic partnering arrangements,

2.3 It is clear that this will involve being very clear about the Council's policy priorities and making some difficult decisions that reflect the financial position facing the Council.

2.4 It is anticipated that the Council will continue to be faced by the continued falling away of the traditional resources that we have used to fund our capital expenditure, in particular the level of capital grants and supported borrowing allocations from Government. The SR has taken the approach of seeking to reduce Prudential Borrowing by increasing the interest rate on money borrowed from the Government's Public Works Loan Board rather than by restricting the amount of Prudential Borrowing permitted. Therefore, the Council will continue to have

the flexibility to borrow in the future although the revenue cost of doing so will increase. Therefore, the Council is faced with limited room for new capital expenditure plans in the next few years beyond that for which resources have already been earmarked and identified. In July 2010 the Government announced the end of the Building Schools for the Future programme which means that Coventry's plans under the scheme will not now go ahead.

2.5 Taking all this into account, the broad financial principles that underpin the Strategy include

- The achievement of a balanced budget over the medium term within a strategic approach to budget setting and financial planning.
- The use of the ABC transformation programme, a corporate HR strategy incorporating voluntary redundancy and early retirement options as necessary and targeted reduction or ceasing of areas of service (primarily but not exclusively grant funded ones) as the delivery mechanisms for the continued achievement of savings to help balance the medium term position.
- Contributions from general reserves on a short-term basis to fund one-off costs and transitional arrangements that require the Council to manage with far fewer resources in the future.
- Maintaining the working balance reserve at a level equivalent to 2% of the revenue budget.
- Undertaking Prudential Borrowing in the immediate term to fund currently approved expenditure, with the borrowing to be repaid as a first call on capital receipts.
- Using appropriate delivery mechanisms to ensure that we will actually be facilitating some significant programmes of capital investment (e.g. Street Lighting) over the medium term.
- Identifying appropriate levels of revenue budgets over the medium term to maintain infrastructure investment (roads, property, ICT) to reduce our reliance on capital receipts.
- Using Prudential Borrowing carefully and on the basis of a business case or a strategic priority.

3. Results of consultation undertaken

3.1 Consultation is being undertaken in response to the proposals in the Pre-Budget Report that contain the same key financial assumptions included in this MTF5.

4. Timetable for implementing this decision

4.1 The assumptions and principles outlined in this report and the Strategy are consistent with those being applied to the Pre-Budget Report and will be used in setting the 2011/12 budget proposals.

5. Comments from Director of Finance and Legal Services

5.1 Financial implications

The main body of this report is concerned wholly with financial matters. It is essential that the assumptions and principles detailed in the Strategy are adopted in order for the City Council to be able to deliver balanced budgets over the medium term.

5.2 Legal implications

The proposals in this report provide the building blocks to allow the Council to meet its statutory obligations in relation to setting a balanced budget by mid-March each year in accordance with Section 32 of the Local Government Finance Act 1992 and section 25 of the Local Government Act 2003.

6. Other implications

6.1 How will this contribute to achievement of the council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / LAA (or Coventry SCS)?

In line with the ABC Programme, the Strategy is intended to minimise any adverse impact on the quality and level of services that are provided to the citizens of Coventry. Nevertheless, the prospect of significant resource constraints makes it inevitable that our ability to deliver existing services will come under enormous pressure. The Council is faced with the need to consider its range of key objectives and make some difficult choices about the priorities that have been agreed previously.

6.2 How is risk being managed?

Inability to deliver a balanced budget is one of the Council's key corporate risks. The proposals within this report are aimed directly at trying to mitigate this risk by providing a robust platform from which to deliver balanced budgets. The most significant financial risk that has faced the Council in recent times is that of Equal Pay. The Capitalisation Direction received from Government for this purpose has enabled us to make our plans to help manage the financial consequences of claims within any reasonable range of settlement.

6.3 What is the impact on the organisation?

By the end of the MTFs period, the Council will be a significant way down a journey to becoming a smaller local authority with fewer employees delivering services from fewer locations. The Council will need to make some decisions about which are its core priorities and which services it considers that it can no longer afford. It will also need to become more flexible about the mechanisms through which it delivers its services.

6.4 Equalities / EIA

Any equalities implications will be highlighted through the Budget Setting process.

6.5 Implications for (or impact on) the environment

No specific impact.

6.6 Implications for partner organisations?

It is likely that our financial plans will have a significant impact upon the way in which we work with a number of our partners over the coming years. The implications of these changes will become clear as individual changes are identified.

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Members: Cllr Duggins	Cabinet Member (Strategic Finance and Resources)		5/11/10	5/11/10
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Coventry City Council Medium Term Financial Strategy 2011 - 2014

1 Introduction and Executive Summary

- 1.1 This strategy supports the Council's medium term policy and financial planning process. The Strategy is designed to help meet the challenges of the Government's 2010 Spending Review (SR), to provide a stable financial base from which to deliver the Council's priorities, to move the Council towards a more strategic longer-term planning approach and to set a sound financial planning framework for the Council.
- 1.2 National economic circumstances mean that local government is now being placed under considerable financial strain, most noticeably through the impact of the SR. Indicative lower levels of government grant, downward expectations on the level of acceptable Council Tax increases and pressure on the generation of local income streams from fees and charges together pose considerable financial challenges. The Council's ambitions are to meet these financial challenges at the same time as achieving service improvements through the ABC Transformation Programme.
- 1.3 During the period of this MTFs, we know that
- there will be significantly fewer resources received directly from central government and the economic downturn will continue to have a significant impact on the city,
 - demand for services will increase, particularly for the most vulnerable,
 - the City Council and its partners will have to focus on key priorities and core business activity and this will mean taking some difficult, yet necessary decisions,
 - some in-year and more short-term budget decisions will have to be made to respond flexibly to the rapidly changing external environment,
 - the vision within the Sustainable Community Strategy provides the City Council's direction of travel in the medium and longer term.
 - the City Council will strive to achieve value for money in all of its operations through its ABC Transformation Programme,
 - this will enable the Council to make the best use of its resources to deliver the ambitions for the city and its people, and help to deliver high quality responsive public services by a smaller, more focussed and flexible local authority.
- 1.4 Section 2 outlines the very difficult national financial circumstances and severe resource constraints that will be imposed on the public sector. The expectations for the Council to plan for a balanced medium term financial position will be severely hampered by these circumstances. At a local level, these expectations include relatively low levels of Council Tax increases and limits on our ability to support our revenue programme from one-off reserves or the Capital Programme through capital receipts. Section 2 explains the context to the issues that affect our medium term financial plans.
- 1.5 The medium term revenue programme is outlined in Section 3 and Appendix 1, showing the scale of financial savings required to balance the medium term programme. This shows the importance of savings identified through the ABC Transformation Programme and reflects the Council's commitment to achieving greater value for money across the spectrum of everything it does. It also shows a significant un-bridged gap between current planned resources and spending which will require further action to identify savings in the light of current funding challenges.

- 1.6 In terms of how we meet the expenditure expectations of the City Council, the revenue position in Appendix 1 uses the following financial planning assumptions and principles:
- The establishment of a balanced budget over the medium term.
 - A stable and unchanged tax-base
 - No increase in Council Tax for 2011/12 but with funding of up to 2.5% provided by Central Government
 - Future rises in Council Tax of 2.5% per annum
 - Future Formula Grant figures indicated by SR 2010 – a like for like real terms reduction of 35%.
 - Significant reductions in specific grants and the absorption of other grant funding streams into the main government Formula Grant.
 - Significant changes to school funding which are as yet not known in detail.
 - The achievement of savings arising principally through the ABC programme.
 - 0% Pay Awards for the next two years (except for those earning less than £21,000) and 1% in 2013/14
 - A freeze on inflation for standard expenditure budgets for the next two years and increases in income budgets of 1% above the retail price index for the next two years.
 - Recognition of specific unavoidable service pressures on an exception basis.
- 1.7 The summary medium term capital position is outlined in Section 4. Notwithstanding the significant investment that will be delivered in the Street Lighting PFI project, the projected programme will have limited scope in other areas of the City Council's activities. To meet the shortfall in funding for key areas of infrastructure the revenue programme includes some provision for infrastructure investment (roads, property, ICT). The capital position in Section 4 uses the following financial planning assumptions and principles
- Spending levels will need to be contained within a restricted financial envelope in the immediate-term.
 - The Council will need to borrow in the immediate-term to deliver existing commitments. This borrowing will be repaid as a first call on capital receipts in the medium-term when they are achieved.
 - Other capital schemes that require funding by Prudential Borrowing will be looked at on a case by case basis and approved only where supported by a business case or aligned to a key strategic priority.
 - We will seek to maximise any other resources (e.g. grants and external funding sources) wherever this is possible and appropriate.
 - Other delivery mechanisms mean that we will be facilitating a large programme of capital investment (e.g. Street Lighting) over the medium-term.
- 1.8 The economic downturn and the current conditions in which the public sector is working does provide an opportunity to innovate and do things differently, which includes working collaboratively with other public sector partners within the City and sub-regionally, achieving more leverage through the voluntary and community sectors and pursuing opportunities for new commercial strategic partnerships.
- 1.9 The sound financial base provided by this strategy gives us some flexibility to pursue the opportunities described above although the financial challenges facing us remain significant. The Council will continue to focus on matching resources to priorities on a medium-term basis with investment and disinvestment decisions that are driven by our policies and the needs of the City. The Strategy recognises the need to achieve value for money in delivery of services through the ABC Programme and allows for ways of

delivering services that most benefit the City as part of a modernising agenda to raise the quality of the services provided.

2 The Economy and the Comprehensive Spending Review

National Context

- 2.1 The UK's current economic and fiscal position provides the context for the coalition government's approach to public spending - the 2008 banking crisis, a collapse in world trade, patchy and uneven recovery from recession and extremely high levels of UK debt has led to a general agreement that reducing the level of the deficit is critical to the economy with the main area of disagreement being how quickly this should be done.
- 2.2 The SR has confirmed the Government's intention to reduce the level of debt quickly and aims to identify savings of £81bn by 2014-15. This is a reduction of public spending on an unprecedented scale in recent years and confirms that the primary strategy to reduce the deficit in public finances will be spending cuts rather than tax increases. It is within this context of severe retraction of public sector spending that the Council has to plan its medium term financial strategy and set its budget.
- 2.3 The Council's previous medium term financial strategy contained a planning assumption of 3% year on year cash reductions in Formula Grant. Partly in response to these circumstances, the Council launched the ABC Programme - a radical programme of transformation projects - and set out to restructure several areas of senior management, the first financial impacts of which were included in the 2010/11 budget.
- 2.4 Following the SR announcement, the Council will not be informed of its provisional Formula Grant settlement until December 2010 and the final settlement as late as January 2011. It is also likely that information about specific grant regimes will be released over this period although the timing and process for this are uncertain at present. The broad indicative position of the level of resources that the City Council may lose as a result of Central Government decisions suggests real-terms cuts in Formula Grant of over 8% per annum and significant further cuts to our specific grants, the full detail of which is still emerging.
- 2.5 Notwithstanding the SR, we are faced with significant uncertainty surrounding the local government Formula Grant with regard to grant distribution that may be affected by changes to the data and methodologies used to determine grant allocations to individual authorities. In addition, a full review of the entire Local Government finance system has been announced by Government, to take place next year. Together with the uncertainty surrounding specific grant settlements this makes it difficult to predict the outcomes with confidence. Nevertheless, there are expectations for local government to present plans demonstrating a stable medium term financial position.

Local Context

Council Tax

- 2.6 Over 57% of funding for our net budget is provided through grant from Central Government and this Strategy's resource projections are framed by the expectations

stated in the paragraphs above. Our expectation is that this proportion of funding will fall in future years as cuts in Formula Grant are imposed.

- 2.7 The remainder of the funding for our net budget (43%) comes from the Council Tax and each 1% rise in Council Tax raises about £1.1m in additional revenue to support the Council's budget. The setting of Council Tax levels is traditionally a local decision within certain capping limits. The SR has confirmed the Coalition Government's intention to apply greater national constraint through the decision to encourage the freezing of Council Tax levels for at least one year. This will be accompanied by Government funding for the equivalent of up to 2.5% of any Council Tax increase. After this and in the light of the reductions in Formula Grant, the City Council will need to seek to maintain to a reasonable degree the level of resources that can be generated locally through Council Tax. **For this reason, beyond year one, this MTFs assumes future increases in Council Tax levels of 2.5%.**
- 2.8 Previous strategies have contained an aspiration for Coventry to increase efficiency and reduce costs so that it can continue to set a Council Tax rise below the metropolitan district average. Current conditions and the Government's inclination to have a greater role in Council Tax setting at a national level make it far more difficult to maintain that aspiration. Our focus for the forthcoming medium term period will be on trying to provide good value for money and reasonable levels of service that reflect our policy priorities without reference to Council Tax comparisons.

Reserves

- 2.9 The current level of reserves (£44m as at 31st March 2010) is adequate for the current known liabilities and approved policy commitments facing the City Council and includes a working balance of £5.4m to cover unforeseen financial problems equivalent to 2% of the net revenue budget. Some £9m of reserves has been earmarked to fund potential early retirement and voluntary redundancy costs over the plan period and this is likely to result in the total level of reserves falling to between £30m and £40m over the next year or so. This level of reserves is appropriate to sustain our current plans.
- 2.10 Reserve balances will be used to deliver the City Council's priorities, making decisions on a corporate basis and observing opportunities to maintain an appropriate balance between short term expenditure and long term investment. More 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 reserves as insurance against an overall level of risk or liability faced by an organisation of the City Council's size.**
 - **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.**
 - **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.**
- 2.11 Corporate Management Board will consider the application of budgeted amounts that are unspent at the year-end, consistent with the guiding principles above and ensure that the levels of reserves held are consistent with the financial risks faced by the City Council.

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 DCSF and schools balances will be managed in line with the Fair Funding Scheme of Delegation.

Value For Money

- 2.12 Previous strategies have been set within the context of responding to government efficiency savings targets. The Coalition Government is moving away from the target setting culture and indications now are that achievement of efficiencies will be driven by the over-arching challenge of delivering balanced revenue programmes over the medium-term rather than meeting specific targets. In response to this the City Council has continued to pursue its transformation programme in partnership with PricewaterhouseCoopers to deliver a significant proportion of these savings over the long-term.
- 2.13 The Council remains committed to meeting the standards of service that we are statutorily required to provide, and where it is possible and appropriate, to improve these standards. At the same time it will be necessary to challenge all areas to justify the continued provision of the discretionary elements of the services they deliver. This may mean reducing the amount of activity we undertake in some areas or even stopping some services altogether. For those services that we continue to deliver we intend to increase value for money and our effectiveness in delivering them. We will still seek to retain an overarching aspiration to minimise the impact on service outcomes for local people and all resource allocation decisions will be informed by our policy priorities and considered within a corporate decision-making process.
- 2.14 The ABC Transformation Programme involves the pursuit of service reviews at individual service level and across Directorates where services have a multi-Directorate basis. In line with the ABC principles senior managers will continue to analyse their services to seek more cost effective ways of delivering them. This will help to identify savings through a combination of genuine efficiency savings in operations or management structures, resource switching involving the transfer of resources from lower to higher priority services and identifying new sources of income. The intention is however that over time, savings will be identified increasingly through transformation programmes.
- 2.15 We will seek to work with our external partners to explore the most efficient way of delivering services and identify how they can help us to work within increasingly challenging financial circumstances. This may mean reviewing the amount of support that we provide by passing on an expectation of efficiency savings where the City Council provides financial support via a grant or on a more contractual basis even where we maintain a constant policy commitment to supporting these organisations. 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 (e.g. our health partners). We will look increasingly towards the potential for any commercial strategic partnering arrangements to help us work more efficiently and effectively.

Sustainable Community Strategy and Local Area Agreement

- 2.16 The MTFs supports and should be considered alongside the SCS within the context of future growth and aspirations for the city, setting out the long-term vision and long-term strategic objectives and outcomes for Coventry. It builds on analysis of the current position in Coventry, expected future trends and the existing priorities and strategies

agreed with central government, local partner organisations and local people and communities. The SCS and Council's corporate plan are in their third year and being reviewed to ensure that they reflect current priorities. The Local Area Agreement is in its third and final year.

- 2.17 The Government has announced changes to the national performance framework for local government, removing the requirement to monitor and produce Local Area Agreements, abolishing the Comprehensive Area Assessment and replacing the National Indicator Set with a single comprehensive list of all the data that it expects local government to provide to central government. These changes will be reflected in our own performance management arrangements.
- 2.18 Notwithstanding the Coalition Government's changes to the growth and housing agenda, the City's population is currently undergoing some growth. Our future financial plans will need to accommodate changes resulting from the impact of growth upon all the Council's services such as schools and leisure facilities; a need for social care; and more households requiring refuse collections.

Fees and Charges

- 2.19 This Strategy proposes that we continue the existing policy that fees and charges increase at least in line with inflation although in the short-term it is proposed that an additional 1% is added to income inflation targets. The financial pressures or other service requirements faced by the City Council may mean that we consider increasing the real financial contribution made from some fees and charges by increasing them beyond the rate of inflation after taking into account all relevant circumstances. We will need to consider the range of other information that should be taken into account and these are set out in the corporate policy on fees and charges.

Treasury Management Strategy

- 2.20 The Council agrees a Treasury Management Strategy annually as part of its budget setting report. The Treasury Management Strategy details who we can invest with and the maximum amount that can be invested. These limits are based on credit ratings, supplied by independent credit rating agencies. In common with other local authorities we only invest with institutions that are rated as very strong.
- 2.21 As financial markets continue to stabilise following the banking crisis we are now looking to re-balance our investment practice. We will continue to invest in UK owned banks and limit the amounts we have invested in a single institution at any one time but relax the ultra cautious practices of investing for only very short periods and using the Government's Debt Management Office almost as a first resort. This will allow us to maintain a prudent investment practice that nevertheless provides some slightly higher investment returns than some of those received in the last 24 months.

Approach to Financial Planning

- 2.22 The City Council's Medium Term Financial Strategy is underpinned by the following fundamental underlying approach:
- Resource allocation decisions driven by our policy priorities with revenue and capital programmes considered together and set within a corporate decision making process
 - A drive to identify efficiencies and achievable savings, implemented at the earliest opportunity.

- Optimised reserve balances within a corporate decision making process maintaining a minimum level to cover any risks that face the City Council and seeking to achieve a "golden rule" of not using one-off resources to support ongoing expenditure.
- Balanced revenue and capital programmes over the medium term with medium term financial plans informed by assessment of the risks facing the City Council.
- Clear frameworks of accountability and delegation with budgets managed by designated budget holder and reported through Directorate management teams, Corporate Management Board, Cabinet and the Audit Committee.
- Operation of a Project Management approach for large schemes including a specific focus on cost control.

3 **Summary Revenue Strategy**

3.1 The City Council is faced with a range of significant future cost pressures. This results from trends such as demographic pressures in adult social care and service activity pressures in children's social care, changes in response to societal or Government expectations such as in waste disposal and recycling arrangements, changes in legislation or new government initiatives and our response to the need to improve upon the current level or quality of our service "offer" leading to local policy commitments.

3.2 As far as possible we have incorporated below the fundamental and over-arching financial expectations upon us within the medium term revenue position. It is important to remember that these financial models have been produced to reflect our best assessment of the impact of the SR and reflects a dynamic financial environment that will be subject to significant change over a relatively short timescale. The revenue position is summarised below and detailed further in Appendix 1. The figures are consistent at a headline level with the November 30th Pre-Budget Report to Cabinet including the financial impact of our most significant future plans insofar as their financial implications can be estimated at present.

	2011/12 £m	2012/13 £m	2013/14 £m
Base Revenue Expenditure	301	307	318
Expenditure Pressures & Priorities	7	6	6
Technical Savings and Resource Switching Options	(14)	(15)	(18)
Identified ABC and Other Savings	(12)	(17)	(21)
Future Transformation Savings to be Identified*	(3)	(9)	(11)
Medium Term Revenue Expenditure	279	272	274
Medium Term Revenue Resources	(279)	(272)	(274)

* The 2011/12 budget will be balanced through a combination of the actual resource settlement from Government, the projected Council Tax Collection Fund position and final consideration of savings and expenditure pressures.

- 3.3 This medium term financial position does not set a balanced revenue budget over the whole plan period as it is affected by the massive reductions in funding implemented by the Government. The progress made in developing the ABC Transformation Programme and the identification of achievable savings through a robust overarching programme of transformation gives us the mechanism for achieving further savings to balance the position in the future.
- 3.4 We will need to implement the savings identified within the 2011/12 budget setting process and the ABC Programme. Notwithstanding this approach, we will continue to undertake good ongoing practice in terms of robust scrutiny of ongoing budgetary control reports to identify any underlying under-spending in City Council budgets and any individual circumstances where budgetary provision and the existing level of service are no longer aligned.
- 3.5 The City Council will need to sustain and build upon the success that it has achieved previously to deliver its priorities through harnessing external funds and 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 in arrangements including joint commissioning arrangements with the PCT, our Section 31 agreements and our Waste Disposal partnership. Future funding pressures and requirements for us to continue to improve the value for money of our services will require us to transform further areas of service delivery. We will need to collaborate with other public sector partners within the city and at a sub-regional level, increase the degree to which we work with the voluntary and community sector to deliver services and explore commercial partnering arrangements where we think these offer the best way forward.
- 3.6 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 Community Based Budgeting that seeks to best utilise the totality of public sector expenditure within defined areas. We will incorporate the impact of these developments into our service and financial plans as they arise.
- 3.7 The SR has announced that a large number of grant funding streams are to diminish, disappear or be subsumed within other funding streams from 2011/12 completely. The planning for the impact of this is under way. We will continue to seek the reduced level of external funding taking account of the need to manage the resulting outcomes 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 also seek to maximise partner contributions towards projects and services as appropriate within the context of the individual area under consideration.
- 3.8 The Council's ABC programme will continue to follow a guiding principle of seeking to deliver best value. This means that each Fundamental Service Review will contain an overall assessment of the best delivery mechanism and the most appropriate role for the Council within each service.

3.9 In setting our revenue and capital budgets we have taken full account of the key financial and other risks facing the City Council through the use of our Risk Management Strategy. The financial impact on the Medium Term Financial Strategy of the key risks facing the Council have been summarised in Appendix 2. The most significant financial risks have already been explicitly provided for in our future budget plans (specifically in relation to Equal Pay) or are being built into future plans (notably City Centre regeneration).

4 **Summary Capital Strategy**

4.1 Government announcements including those on Building Schools for the Future have already demonstrated that future central government capital allocations will be much lower than previously. Programme planning is difficult currently due to the lack of information around the full range of Government capital allocations. The medium term capital position shown in the table below represents an indicative planning position for the size of the gap between capital resources and capital expenditure at this stage. This will be updated through the budget process and the City Council will set a medium-term Capital Programme. Notwithstanding some specific challenges we will seek to balance the Capital Programme over this period.

4.2 The relatively low level of available resources including capital receipts that we have been used to in previous years mean that there will continue to be very little room for new capital expenditure plans in the next few years beyond that for which resources have already been earmarked and identified. The short to medium-term position continues to be very challenging and with the expenditure commitments that are already in train there will be a shortfall in the level of resources unless the Council undertakes some short-term borrowing. This will need to be repaid as a first call on capital receipts when they are achieved over the medium-term.

	2011/12 £m	2012/13 £m	2013/14 £m
Shortfall/(Surplus) Between Capital Expenditure and Capital Resources	7.4	(0.4)	(6.2)

4.3 Notwithstanding the shortage of capital resources to fund our infrastructure investment and regeneration requirements, 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.

4.4 Current resource constraints make it essential that our approach to capital planning incorporates appropriate attention to future spending needs and funding flows to enable us to develop future investment in the City’s public infrastructure in a robust and sustainable manner. Government funding will not give us the resources needed to invest in some fundamental areas of service and infrastructure – our highways, operational property portfolio and information technology systems. As part of our revenue programme we will aim to continue to make these resources available for capital purposes.

4.5 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 a strong 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. Where we consider whether schemes should be funded by Prudential Borrowing this will be looked at on a case by case basis. Such funding will only be approved where it is supported by a business case or aligned to a key strategic priority.

4.6 The Council's overarching Capital Strategy is outlined below:

- The Council will dispose of surplus land and operational property and use the receipts to help manage the Corporate Capital Programme, sensitive to the needs of school or project specific requirements within which disposal sites are identified.
- All receipts should be considered corporately and should only be ring-fenced to specific schemes where this is viewed as being the optimum use of these resources.
- The Council will seek to generate receipts from selling our least well performing commercial assets, balancing the implications of commercial rental income foregone against the amount and timing of the potential receipt to be generated. We will take account of the need to choose the best time to sell such assets in the light of market conditions and particularly the price that we can achieve on these sales.
- 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.
- Any decisions to continue to invest or to disinvest from City Council investments such as in Birmingham Airport and the University of Warwick Science Park will be based on regular reviews of the financial and strategic impact on the city of doing so.
- Faced with current circumstances, the Council may take some decisions designed to overcome some short-term difficulties such as significant curtailment of spending plans and the use of short-term borrowing in anticipation of future capital receipts in the medium- term.

5 **Partnership, Participation and Consultation**

- 5.1 The Council's approach will continue to be sufficiently flexible to allow for different funding arrangements such as combinations grant funding, forms of governance at local level, the increased use of partnership approaches and the promotion of joint commissioning arrangements. All of these developments affect the way in which we manage our finances and demand flexibility in the way we work. The expectation is that these approaches will continue to be highly relevant in the future although the pressure that will be placed on funding streams for local services will affect significantly the viability of some arrangements.
- 5.2 Where appropriate the Council will explore and take advantage of different approaches to service delivery in order to optimise the volume and quality of service that can be delivered. The coming medium-term period will therefore require us to increase our participation in more shared service approaches, commercial strategic partnering arrangements, greater involvement of community and voluntary sector partners within the City and collaboration on a sub-regional basis.
- 5.3 The Council's Inform, Consult and Involve Strategy sets out our approach to meeting the new legislative framework and provides the mechanisms to ensure that 'representatives of local people' are being appropriately informed, consulted or involved in services, policies or decisions that affect or interest them. In line with this, the Council's budget

planning will continue to be open to a broadly based public consultation process to help it make fair and transparent decisions that reflect local needs and demonstrate its commitment to a process that improves trust between different community groups.

- 5.4 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 and the Council continues to work closely with Schools through the Schools' Forum in budget decisions that have an impact on them.

6 **Conclusions**

- 6.1 Along with the rest of the public sector, the City Council faces a massive challenge in the next few years to deliver public services with a much lower level of financial resources than previously. All indications are that this will represent the most difficult period that local government has faced for at least several decades as we face up to a period of austerity. It is clear that we will need to refocus our services on core business activity and this will involve some tough decisions in those areas that fall outside of this definition.
- 6.2 Even with this background the City Council is committed to do all that it can to make our services even better and raise the quality of life in the City. To achieve this we will look to identify the best way that services can be delivered, some of which will undoubtedly move away from traditional models of service delivery. Our transformation agenda will ensure that we will look to review and transform all of the services that we deliver to ensure that whichever model we choose, we provide the best value for money that we can.
- 6.3 This Medium Term Financial Strategy reflects these developments and where appropriate defines our approach to them. It reflects the steps that we have taken to ensure that we are well placed to respond to the financial storm clouds that are gathering in public finances. The City Council's approach will be to embrace the significant opportunities that are arising to change the way in which local services can be delivered and this will serve as a springboard for achieving the City's aspirations and delivering A Better Coventry.

Coventry City Council

Appendix 1: Medium Term Revenue Position

	2011/12	2012/13	2013/14
	£m	£m	£m
Base Budget	301.43	307.50	317.79
Formula Grant	(159.07)	(149.10)	(147.85)
Council Tax plus Council Tax Grant	(120.20)	(123.13)	(126.14)
Initial Budget Gap Post CSR	22.16	35.27	43.80
<u>Potential Technical Savings</u>			
Street Lighting PFI	(1.00)	(1.00)	(1.00)
City Centre Regeneration Income Loss On Hold	(3.00)	(3.00)	0.00
0% Pay Award Impact (1% in 2013/14)	(3.00)	(4.00)	(8.00)
Reduce Non-Salary Spend Budgets (Incl External Venues)	(2.00)	(2.00)	(2.00)
Waste Project Affordability Gap	(1.50)	(2.50)	(3.50)
Commercial Income from WAN/MAN	(0.05)	(0.05)	(0.05)
Fostering payments	(0.08)	(0.08)	(0.08)
Higher National Insurance Threshold	(0.53)	(0.53)	(0.53)
SERCO Contract Inflation	(0.20)	(0.50)	(0.90)
Asset Management Revenue Account MRP Revision	(0.50)	0.00	0.00
Waste Disposal Dividend	(1.90)	?	?
ITA - 3% Savings vs 2% Inflation Assumption	(0.83)	(1.66)	(2.50)
Total Technical Savings	(14.59)	(15.32)	(18.55)
<u>Potential Unavoidable Pressures</u>			
Emerging Pressures - CLYP Children's Placements	2.20	2.20	2.20
Emerging Pressures - CLYP Transport	0.50	0.00	0.00
Emerging Pressures - CSD Bereavement Services Income	0.18	0.18	0.18
Emerging Pressures - CSD Landfill Allowance Trading Scheme	0.15	0.15	0.15
Emerging Pressures - CSD Waste Disposal	0.37	0.37	0.37
Emerging Pressures - CSD Skip Income	0.18	0.18	0.18
Emerging Pressures - Land Charges	0.30	0.30	0.30
Waste Recycling - Former ABG	0.77	0.77	0.77
Total Place	0.25	0.25	0.25
Total Unavoidable Pressures	4.90	4.40	4.40
<u>ABC Savings Approved in 2010/11</u>			
I-Cov	(3.80)	(4.00)	(5.00)
Catering - Primary and Special	(0.85)	(1.05)	(1.19)
Total ABC Savings Approved in 2010/11	(4.65)	(5.05)	(6.19)
Surplus Deficit <u>Before</u> Budget Actions	7.81	19.29	23.45
Initial Policy Proposals less New ABC and Other Savings Options	(4.39)	(10.21)	(12.21)
2010/11 Budget Actions and Future Transformation Savings Required	(3.42)	(9.08)	(11.24)
(Surplus)/Deficit <u>After</u> Budget Actions	0.00	0.00	0.00

Appendix 2

Corporate Risk Register Reference	Risk	Existing Financial Treatment and Any Implications For MTFS
C001	Poor project management leading to the failure of one or more key corporate projects.	Financial requirements for key projects are identified as part of project management arrangements and incorporated within medium term revenue/capital programmes as appropriate.
C002	Failure to discharge health and safety responsibilities effectively.	The revenue programme contains ongoing budgets to support our core health and safety duties and additional resources are identified to fund additional programmes of spend where necessary.
C003	Successful litigation against the Council over equal pay claims causes significant unbudgeted costs.	Claims are being defended through due legal process and provision made for £30m for any potentially successful claims supported by a Capitalisation Direction.
C004	The Council is unable to produce a balanced budget in the medium term.	This strategy incorporates the measures that will enable us to balance our medium term programmes, in particular the delivery of the ABC Transformation Programme.
C005	Failure of ICT systems and services leading to a severe impact on the day to day operation of the Council.	Our ICT Strategy prioritises ICT developments to allow the most pressing ones to be delivered within identified revenue and capital resources.
C006	Risk that Council services or those commissioned by the Council do not take action in an effective or timely way to safeguard and protect vulnerable adults, children and young people.	These services have significant levels of core funding within existing budgets. Such areas are kept under review and where it is demonstrated that further financial support is required to mitigate such risks then this will be factored into our financial plans.



Coventry City Council

Briefing note

To
Cabinet

30th November, 2010

Subject
Medium Term Financial Strategy 2011-2014

1 Purpose of the Note

To inform the Cabinet of the outcome of Scrutiny Board 1's consideration of this report at its meeting on 24th November, 2010.

2 Recommendation

The Cabinet is asked to note that, with the exception of Councillor Nellist, the Board supported the Medium Term Financial Strategy and did not wish to put forward any comments for consideration.

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