

Cabinet	22 <sup>nd</sup> September 2009
Scrutiny Co-ordination Committee	14 <sup>th</sup> October 2009
Council	20 <sup>th</sup> October 2009

**Name of Cabinet Member:**  
**Cabinet Member (Finance and Value for Money) – Councillor Foster**

**Director approving the report:**  
**Director of Finance and Legal Services**

**Ward(s) affected:**  
**All**

**Title:**  
**Medium Term Financial Strategy 2010 - 2013**

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**Is this a key decision?**

**Yes**

Cabinet and subsequently Council are being recommended to approve the Medium Term Financial Strategy for 2010-2013.

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**Executive summary:**

This report presents a Medium Term Financial Strategy (MTFS) for 2010-2013 for adoption by the City Council. The previous strategy was approved in January 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 considerable challenges being faced by our national and local economies and when we face a significant reduction in the real level of revenue and capital resources available to local government.

The Council has already begun to implement some of the significant change needed to prepare the financial base to deal with this situation in the form of the Transformation Programme and the bringing forward of the budget setting process.

It is clear from the financial position facing us that we will need to achieve significant revenue savings over the medium term and set a significantly restricted capital programme. At this point, with no Comprehensive Spending Review completed by Government and none expected until after the election, the impact of Government spending on the Council can only be estimated.'

**Recommendations:**

- (1) Cabinet is recommended to agree 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 together with any comments.
- (2) Scrutiny Board 1 is asked to consider this report and forward its comments to Council.
- (3) Council is recommended to approve the Strategy or amend it as appropriate in light of the comments of Scrutiny Board 1 and Cabinet 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 - Scrutiny Board 1 on September 23<sup>rd</sup> 2009

**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. October 20<sup>th</sup> 2009.

**Report title:  
Medium Term Financial Strategy 2010 - 2013**

**1. Context (or background)**

1.1 Council previously approved the current MTFS on 13<sup>th</sup> January 2009. As part of recent budget setting processes members have considered a pre-budget report in December that has begun the statutory budget consultation process. This year it has been decided to bring forward the budget setting process by approximately three months beginning with the consideration by Cabinet of a Pre-Budget Report at the same time as the revised MTFS to give a clear context. Following this report there will be a period of public consultation on the budget saving options leading to the publication of a further report containing the majority of final budget decisions in December 2009. Final statutory Council Tax Setting and Budget Requirement reports will be taken in February 2010.

The Strategy has three main objectives;

- To provide a stable medium term financial base from which to deliver the Council's priorities and transformation/ABC agenda.
- To move the Council towards a more strategic longer-term approach to delivering our revenue and capital plans.
- To set a sound financial planning framework to underpin the effective financial management of the Council.

1.2 The Strategy attached to this report in full is set within the context of the Council's commitment to delivering the Coventry Sustainable Community Strategy and our Corporate Plan. Although the Council was awarded 4 star status in March 2009 it recognises the need to further improve the quality of its services. This will be particularly challenging at a time when a much lower level of funding will be available to local authorities through Government grant and Council Tax.

1.3 In order to deliver better services the Council has embarked on a Transformation Programme that will affect every area of the City Council and all the services we deliver over the next few years. Over the course of the 3 year strategy the ABC (A Better Coventry) 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 September 22<sup>nd</sup> Pre-Budget Report to Cabinet and the MTFS is based on the same fundamental financial assumptions. These are explained in more detail within the Strategy. In summary these assumptions are:

- A stable and unchanged tax-base
- Council Tax increases of 2.5% pa
- 2010/11 Formula Grant figures indicated by CSR 2007
- 3% p.a. cash reductions in Formula Grant from 2011/12
- Pay Awards assumed to rise at no more than 1.0%

- A freeze on inflation for standard expenditure budgets
- Recognition of some significant pressures arising from economic and specific local circumstances

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

	2010/11 £m	2011/12 £m	2012/13 £m
Base Budget	269.1	275.8	283.8
Council Tax Revenue	(116.4)	(120.4)	(123.4)
Formula Grant	(153.0)	(148.4)	(144.0)
Bottom Line Gap	10.4	23.9	37.6

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. It now seems certain that over the course of the next two Spending Review periods at least, local government will face a position of austerity compared with the last ten or so years. This Strategy reflects plans that are already underway and being continuously developed by the Corporate Management Board that will incorporate:

- The identification of service efficiencies and areas of service that will be reduced or stopped through the ABC Programme,
- Collaboration with partners to help achieve alternative delivery mechanisms and strategic partnering arrangements,
- A move to Coventry's being a smaller local authority working from fewer locations.

2.3 It is clear that this will involve being very clear about our policy priorities and making some difficult decisions that reflect the economic realities facing the country.

2.4 With regard to the City Council's Capital Programme, recent years have been marked by a falling away of the traditional resources that we have used to fund our capital expenditure. In addition, we anticipate (based on Government announcements) that future capital allocations are likely to be much lower than previously. With this in mind, it is clear that there will continue to be very little room for new capital expenditure plans in the coming years beyond that for which resources have already been earmarked and identified. The City Council has already laid down plans including the Building Schools for the Future programme (to rebuild and refurbish the City's secondary schools), Street Lighting PFI, the Waste Project and the regeneration of the City Centre.

2.5 Taking into account all this, 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 as the delivery mechanism for the continued achievement of savings to help balance the medium term position.
- No contributions from general reserves to support ongoing expenditure and the maintaining of our working balance at 2% of revenue budget.
- Undertaking Prudential Borrowing in the immediate term to fund currently approved expenditure, with the borrowing to be repaid from capital receipts over the medium term on a case by case basis where supported by a business case or aligned to a key strategic priority
- Using alternative delivery mechanisms to ensure that we will actually be facilitating a huge programme of capital investment (BSF, City Centre, Waste Project, 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.

### **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 MTFS..

### **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 2010/11 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 (and the key objectives of the Sustainable Community Strategy). Nevertheless, the prospect of significant

resource constraints over the coming years makes it inevitable that our ability to deliver existing services will come under enormous pressure. Local Government will need to consider the range of key objectives that it has set itself and make some difficult choices between the priorities that have been agreed previously. The emphasis that has been placed on the Council's transformation agenda is designed to respond to these challenges and mitigate the risks to services. As far as possible we will try to deliver better value for money in the services that we provide and achieve the same or better level of service with fewer resources.

## **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 last year has enabled us to make our plans in the knowledge that we will be able to 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 as individual service delivery proposals are identified and will be considered at that time.

## **6.5 Implications for (or impact on) the environment**

No 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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Coventry City Council

**MEDIUM TERM**

**FINANCIAL**

**STRATEGY**

**2010 - 2013**

September 2009



## **Coventry City Council's Medium Term Financial Strategy 2010 - 2013**

### **1 Executive Summary**

- 1.1 This strategy supports the Council's medium term policy and financial planning process. The Strategy is designed to help 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 During the period of this MTFs, we know that
- there will be comparatively less, not more, monies received being direct 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 gives us a clear direction of travel in the medium and longer term.
  - the City Council will strive to achieve value for money in every area of its operations through its ABC Transformation Programme to achieve real and lasting efficiencies,
  - this will enable the Council to unlock the 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.
- 1.3 Section 3 outlines the very difficult national financial circumstances that will exist for the foreseeable future. The expectations for the Council to plan for a balanced medium term financial position will be severely hampered by severe resource constraints that will be imposed on the whole public sector.
- 1.4 This national position will be compounded by expectations locally of relatively low levels of Council Tax increases and recognition that we will not be able to support the revenue programme through one-off reserve contributions or the Capital Programme through capital receipts. Section 4 explains the context to these issues and other aspects of the local context to our medium term financial plans.
- 1.5 The medium term revenue programme is outlined in Section 5 and Appendix 1. This shows a balanced medium term programme that includes funding for unavoidable areas of expenditure including ones that are the result of the economic downturn. The Council continues to strive to achieve greater value for money across the spectrum of everything it does and the achievement of savings over the plan period will continue to be a key component. The ABC (A Better Coventry) change programme is the key delivery mechanism for identifying and delivering these savings and delivering the more efficient and effective Council services we need 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
- Adoption of a more strategic approach to budget setting and financial planning.
- A financial planning figure for Council Tax increases of 2.5% over the medium term and a stable and unchanged tax-base
- 2010/11 Formula Grant figures indicated by CSR 2007 and 3% p.a. cash reductions in Formula Grant from 2011/12
- The continued achievement of significant cashable savings in order to balance this medium term position in line with 4% efficiency targets.
- No contributions from general reserves to support ongoing expenditure.
- Pay Awards assumed to rise at no more than 1.0% and a freeze on inflation for standard expenditure budgets
- Fees and charges to increase at least in line with inflation and beyond this if market and comparator information justifies this.
- Recognition of some significant pressures arising from economic and specific local circumstances

1.7 The summary medium term capital position is outlined in Section 6. Notwithstanding the massive investment that will be delivered in programmes including Building Schools For the Future, the Primary Capital Strategy, the Street Lighting PFI project, City Centre regeneration and the replacement waste disposal facility, the projected programme recognises the limited scope that will be available 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). This begins with a proposed investment of £3m in 2010/11 rising in future years. The capital position in Section 6 uses the following financial planning assumptions and principles

- We can expect to have a lower level of capital resources in the immediate term and our spending levels will need to be contained within this reduced financial envelope.
- Our level of currently approved programme means that we may need to borrow in the immediate term to deliver existing commitments. This borrowing will be repaid from 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) wherever this is possible and appropriate.
- There are other delivery mechanisms that mean we will actually be facilitating a huge programme of capital investment (BSF, City Centre, Waste Project, Street Lighting) over the medium term.

1.8 The economic downturn and the current conditions in which the public sector is working provides a rare 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 medium term financial position remains very uncertain. Nevertheless we intend to increase the extent to which we match resources to priorities on a medium term basis. Moving the budget setting process forward will help the Council to take this medium term perspective and the degree to which investment and disinvestment decisions 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 may be a departure from traditional models. Achieving this as part of a modernising agenda is key to raising the quality of the services that we provide for the City.

## 2 **Introduction and Objectives**

- 2.1 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 4 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.
- 2.2 National economic circumstances mean that local government will be placed under considerable financial strain in future years. This will result in 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. The Council's ambitions are to meet these financial challenges at the same time as achieving the service improvements through our comprehensive ABC Transformation Programme.
- 2.3 This MTFS supports the medium term policy and financial planning process at the heart of setting our revenue and capital budgets. The main objectives for the Strategy are:
- To provide a stable financial base from which to deliver the Council's priorities as laid out in the Corporate Plan, Sustainable Community Strategy (SCS), Local Area Agreement (LAA) and ABC Programme and to improve services.
  - To move the Council towards a more strategic longer-term approach to delivering our revenue and capital plans.
  - To set a sound financial planning framework to underpin the effective financial management of the Council.
- 2.4 There are two aspects that fundamentally underpin this MTFS and these should be established at the outset:

Firstly, the Council has set its key objectives in response to our Corporate and Cabinet Member Strategic plans, the SCS and LAA. These are all influenced by local priorities, input from public consultation, Government policies, performance information and external inspections. In the light of future financial constraints it has become even more important that we move towards a genuine matching of revenue and capital resources with our policy priorities. This will involve the Council focussing more clearly on its core services and priorities and making some difficult decisions to reduce or cease activity in some areas.

Secondly, the Management Board is the key executive body in the process of advising members 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.

- 2.5 Section 5 and Appendix 1 of the Strategy shows our current medium term projections for revenue. The equivalent medium term capital position is shown in Section 6. Sections 5 and 6 provide more detail that explains the main components of and context to these programmes. To underpin our approach we have sought to develop and refine our approach to Financial Management in order to support the transformation agenda. Appendix 2 of this strategy briefly outlines our over-arching approach to Financial Planning incorporating the principle that revenue and capital decisions will be considered together.

### 3 **National Context**

#### The Economy

- 3.1 The international and national economic situation has been very volatile over the past year arising initially from a collapse of confidence in the banking and financial sectors and resulting ultimately in worldwide recession. In this period the UK economy has suffered negative growth for the first time since 1992 leading to UK interest rates being set at unprecedentedly low levels. The economy continues to be in recession and expectations are that when the economy emerges from recession, any recovery is likely to be slow and weak. Inflation has fallen significantly over this period and is expected to continue to be relatively low over the medium term – the Council's relevant inflation index (RPIY – Retail Price Index excluding mortgage interest and indirect taxes) is currently around 2%.

#### Government Borrowing and Spending

- 3.2 In response to this deflationary pressure, the Government outlined an approach that relaxed the current set of fiscal rules. Two cornerstones of these rules were that the Government would only borrow money to invest over the current economic cycle and that it would limit the level of public sector debt as a proportion of national spending to 40%. In late 2008 the Government made it clear that these rules would be abandoned at least temporarily. This led to the announcement of the acceleration of existing capital expenditure plans. Otherwise, the Government has appeared to stick broadly to its existing public sector expenditure plans and has delayed refreshing any Spending Review announcements beyond 2010/11. The current assumption for this medium term financial strategy is that Government spending commitments will remain consistent with previously indicated levels to the end of 2010/11. However, the Government's massive financial investment to support the UK banking sector, a fall in government tax revenues and increase in recession related expenditure have caused a significant deficit position into and beyond the medium term. The speed of recovery of public sector finances from this position is very hard to predict.

#### Comprehensive Spending Reviews

- 3.3 The Government's Comprehensive Spending Review (CSR) 2007 was intended to give a relatively firm indication of the resources that Local Government could expect over the period 2008/09 to 2010/11. The CSR delivered a three-year settlement that marked a significant slow down in investment in Local Government and our current medium term financial plans incorporate the position notified to us within this settlement to the end of 2010/11. Broadly, the settlement was planned to deliver real terms growth of around 1% for local government in 2008/09, a standstill settlement for 2009/10 and a slightly reduced level of resources for 2010/11. Although the economic events of the "credit crunch" and the recession have undermined many of the financial predictions underpinning the CSR, the Council is still expecting its fixed grant settlement for next year.

- 3.4 The CSR that was due in 2009 has not been undertaken and is not now expected until after the next General Election. Given the current economic circumstances and the slowdown already experienced in funding for local government, it is difficult to predict the likely level of Government support in 2011/12. Our current planning assumption is that we will receive a 3% cash reduction in Government resources in 2011/12 and 2012/13. A firmer indication of the actual likely settlement is not now expected until well into 2010 when the Government will need to communicate the next spending review round. Our assumptions have been informally benchmarked with other Local Authorities locally and nationally and are broadly in line with those adopted elsewhere.
- 3.5 In summary, we are faced with the most fluid financial circumstances for a number of years making it difficult to predict the outcomes with any confidence. At the same time there are expectations for local government to present plans demonstrating a stable medium term financial position.

#### 4 Local Context

This section details the most significant current issues that are affecting the Council's financial circumstances.

##### Council Tax

- 4.1 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. 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. 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 which has been 5% in recent years. The current economic climate, current low levels of inflation, public expectations and the anticipated impact of Government pronouncements lead us to believe that Government may impose a Council Tax cap below the 5% level and perhaps as low as 2%. **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.**
- 4.2 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 Formula Grant that they pay us, the Government assumes that we will increase Council Tax levels by broadly the rate of inflation over the plan period. The level of underlying inflation is likely to be relatively low over the next 12 months and this is one of the factors that we need to take into account in terms of maintaining the real level of Council Tax revenue. Our medium term financial assumptions last year, were informed by an assumed Council Tax increase of 3.5%. **For financial planning purposes only, the MTFS assumes annual Council Tax increases of 2.5%. Any decision to set a Council Tax that does not broadly match these assumptions will need to take into account the wider economic circumstances and the consequent impact upon the budget setting process.**
- 4.3 Clearly the final decisions to set Council Tax increases impact upon 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. In the last two years, Coventry has moved out of the least well performing quartile for metropolitan district authorities' Council Tax levels and we now have the 10th 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.** Having just moved out of the bottom quartile this year our aim now is to become an average Band D Council Tax authority over the medium to long 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.

### Reserves

- 4.4 The Council's once high levels of reserve balances relative to other local authorities have been used over more recent years in line with policy decisions to help implement our revenue and capital programmes. The 2008/09 outturn position enabled us to implement the commitment in last year's MTFS to increase un-earmarked reserves to cover unforeseen financial problems from 1% to 2% of the net revenue budget (£5.4m). The current level of reserves (£47m as at 31<sup>st</sup> March 2009) is adequate for the current known liabilities and approved policy commitments facing the City Council. We expect this balance to stay broadly within the range of £40m to £50m over the medium term and our view is that this is appropriate to sustain our current plans.
- 4.5 We will seek to optimise the use of our reserve balances in delivering 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. The initial emphasis for applying these resources will be to deliver the Council's Corporate Plan, SCS and ABC Programme.
- 4.6 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.**
  - **We will seek to achieve 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.**
- 4.7 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.
- 4.8 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. The Fair Funding Scheme of Delegation gives the City Council authority to claw-back any remaining uncommitted balances over 5% of an individual school's budget share. The level, and intended use, of schools reserves is also challenged as part of the formal annual School Performance Review process.

### Capital Receipts

- 4.9 There has been a dramatic fall-off of capital receipts from the sale of land and property assets that the Council's Capital Programme has been heavily dependant on for a number of years. This is one of the direct results of the economic circumstances described in this report.



The financial years 2007/08 and 2008/09 have witnessed significant difficulties in achieving the planned level of capital receipts upon which our Capital Programme has been predicated. For 2008/09 alone, there was a fall in capital receipts in excess of £20m from initial planning stage to estimated outturn.

- 4.10 This has had a major impact upon our ability to balance the current Programme within existing parameters. The suddenness and severity of the collapse of the level of capital receipts is such that a short-term response is required that will be built upon by subsequent medium term actions. This response is outlined in section 6. Our expectation is that more stable market conditions will return in due course and when they do we will continue existing policies on asset disposals. The Council also needs to protect against selling valuable assets in the current climate at low prices.

#### Value For Money

- 4.11 It is clear from the financial climate, and the indications we have received from Government that the City Council will face a significant challenge to deliver a balanced revenue programme over the medium to long-term. The Government's clear message is that Local Authorities must deliver year-on-year efficiency savings, set at 4% for 2010/11. In response to this agenda the City Council has been pursuing its VFM Partnership with PricewaterhouseCoopers to deliver a significant proportion of these savings over the long-term. In recent months this has dovetailed into the ABC transformation programme aimed at reviewing everything we do in order to improve the services we provide.
- 4.12 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 or 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.
- 4.13 Only savings that have already been specifically identified will be included in the financial projection for 2010/11. We will seek to implement these at the earliest opportunity and bringing forward the budget setting process should help in this aim. We expect to continue to identify new savings on an ongoing basis through the ABC Programme and these will form part of our financial planning for future years, enabling us to plan those changes that will help to balance future years' base budgets. All of these resource allocation decisions will be informed by our policy priorities and considered within a corporate decision-making process. The need to match resources with priorities will become ever more important as the relative amount of resources made available to us falls.
- 4.14 The ABC Transformation Programme involves the pursuit of service reviews both at individual service level and across Directorates where services have a multi-Directorate basis. In line with the ABC principles management teams and Management Board members 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.

- 4.15 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 and we will work with partner organisations to identify how they can help us 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 passing on an expectation of efficiency savings or when re-commissioning provision. 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. the PCT). Clearly, in both sets of circumstances, such decisions need to be open and transparent and communicated clearly with the bodies affected. We will look increasingly towards the potential for any commercial strategic partnering arrangements to help us work more efficiently and effectively.
- 4.16 The work outlined above will help to achieve the efficiency targets set by Government. The need to achieve year on year cashable efficiency savings has now been raised to 4% of budget for 2010/11 and these have been built into Government assumptions of our spending needs and our ability to absorb the increasing demands upon our services. In the longer term, the Pre-Budget Report has set a £5 billion additional efficiency target for the public sector as part of its strategy for public spending. Therefore, it is essential that this Medium Term Financial Strategy includes the intention to meet these savings targets, reported through the Government's National Indicator 179. In reality we anticipate that the need to curtail public sector spending over the medium term will require the Government to allocate fewer resources than even these efficiency targets assume such that local government will increasingly have to consider which services it provides as well as providing all of them in a more efficient manner.

#### Local Area Agreement and Sustainable Community Strategy

- 4.17 Coventry's Sustainable Community Strategy (SCS) and Local Area Agreement (LAA) are important contracts between the Government, the Coventry Partnership and the City Council to deliver both central and local priorities. The Local Area Agreement is leading to greater flexibility in the ways that government and other funding such as the Area Based Grant can be used locally to deliver local priorities.
- 4.18 Coventry's LAA signed by the Coventry Partnership, Coventry City Council and central government sets out agreed priorities with improvement targets across a range of areas. The LAA has a time scale and the short-term priorities to help to achieve the long-term objectives and outcomes of the SCS.

It is key to central government's assessment of the Council's performance in the future and will also be used to assess the performance of the Coventry Partnership and other partners.

- 4.19 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 was developed within the Coventry Partnership, the city's Local Strategic Partnership (consisting of public, private, voluntary and community organisations, including Coventry City Council) using evidence from a strategic assessment of the needs of the city. 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.
- 4.20 The City is developing plans 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. 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 collections. As this agenda progresses it will affect the level of funding required for individual services, the balance of resources that we generate locally and those that are provided by government. Our future financial plans will need to accommodate these changes.
- 4.21 In 2008/09, Area Based Grant (ABG) was introduced as a non ring-fenced addition to the Council's Formula Grant and has been applied to support existing spending priorities in 2008/09. Continuation of the ABG regime in 2009/10 has involved some re-allocation to provide funding for priority areas of expenditure within the City and an allocation to the Local Public Service Board to allow decisions to be made in line with local priorities. This approach will continue over the medium term. It is expected that specific aspects funded by ABG will come under particular pressure in the current fiscal environment.
- 4.22 The Government has significantly refined the new performance assessment framework for local public sector services. This new Comprehensive Area Assessment (CAA) incorporates a revised Use of Resources assessment that covers aspects including how well the Council plans its finances and whether it is financially sound, taking a medium term view of this. This assessment has been undertaken by our external auditors for the first time in 2009. We await the first score for this which will be released early in 2010.

#### Fees and Charges

- 4.23 The City Council's existing policy is that fees and charges will be maintained in real-terms by increasing them each year in line with prevailing inflation indices. Analysis provided previously through our Value For Money Partnership showed that there is a range of service areas where our fees and charges are lower than comparator authorities. This means that the balance of resources required from Council Tax will be higher or that the overall level of service provided will be less than elsewhere.

- 4.24 This Strategy proposes that we continue to ensure that fees and charges increase at least in line with inflation. 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 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. Other information considered will include the existing levels of competition and demand, benchmarking, stakeholder and user information and any financial analysis of the impact of charging decisions. A corporate policy on fees and charges is due to be approved by Cabinet in September 2009.

#### Treasury Management Strategy

- 4.25 The Council agrees a Treasury Management Strategy annually as part of its budget setting report. Events in the banking world over the past couple of years have brought into focus the issue of risk in regard to managing the day to day cash-flow of the authority and in our short term investments with financial institutions. 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.
- 4.26 Although the City Council suffered no direct detriment due to the 2008 banking crisis our investment criteria would not have prevented us from investing in some of the affected organisations (e.g. Icelandic Banks). Notwithstanding the fact that we have followed prudent and recommended treasury management practice, the crisis has prompted a re-evaluation of this. Whilst this is clearly an evolving process, we are currently looking to invest for shorter periods including in current or "call" accounts; keep a closer watching brief on market conditions; invest more frequently with the Government's Debt Management Office (DMO); invest more frequently with UK owned banks where we think investments are more likely to be sound or where the threat of administration or receivership is far lower; and limit the amounts we have invested in a single institution at any one time.
- 4.27 We continue to see an impact upon the rate of interest that we receive on these balances in the short term and these lower rates need to be seen as a trade-off against a perceived lower level of risk.

## 5 Summary Revenue Strategy

5.1 The City Council is faced with a range of significant pressures on our future level of costs. This is the result of several trends:

- Future demands on our services (for instance due to demographic pressures in social care) outstrip the available supply.
- Pressure occurs that changes the shape and level of service provision in response to societal or Government expectations. This is currently manifesting itself in current developments being planned in our waste disposal and recycling arrangements.
- Changes in legislation or new government initiatives can increase pressure on existing budgets without explicit associated funding being identified to pay for the changes. The current Building Schools for the Future initiative is one such example of this.
- Our response to the need to improve upon the current level or quality of our service "offer" leads to policy commitments that impose increased financial commitments. The plans for a massive regeneration of the City Centre are likely to lead to a medium term fall-off in the level of rental income that the City Council derives from its City Centre property portfolio.

5.2 There are limitations on the degree to which we can identify all of the potential changes within our medium term financial projections. Nevertheless, as far as possible we have attempted to incorporate some of 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 within a dynamic financial environment and that they may be subject to significant change over time. The revenue position is summarised below and detailed further in Appendix 1. The figures are consistent with the September 22<sup>nd</sup> 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.

	2010/11 £m	2011/12 £m	2012/13 £m
Base Revenue Expenditure	269.1	275.8	283.8
Projected Medium Term Expenditure Pressures	10.7	16.9	21.2
Saving and Resource Switching Options	(10.4)	(15.1)	(16.8)
<b>Medium Term Revenue Expenditure</b>	269.4	277.6	288.2
<b>Medium Term Revenue Resources</b>	(269.4)	(268.8)	(267.4)
<b>Balance of Excess Expenditure/(Resources)</b>	0.0	8.8	20.8

- 5.3 It is important within this Medium Term Financial Strategy to set a balanced revenue budget for all years in the 3-year plan within a strategic approach to budget setting and financial planning and factoring in some significant impacts from strategic long-term plans such as City Centre regeneration. 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 mechanisms for achieving a more robust medium term approach.
- 5.4 Even before the credit crunch related financial impact of the past year or so, the national and local financial context had created a scenario within which the Council needed to undertake robust actions to enable it to achieve a lower cost base than currently. The significant budget deficit that now faces the national economy means that the Government will be forced to reduce public sector spending in all areas. All indications are that the non-schools Local Government sector is likely to face funding reductions that are disproportionately higher than average. The over-arching message is that the Council will need to increase the pace at which it identifies savings on an ongoing basis.
- 5.5 This means that we will need to implement those savings identified within the 2010/11 budget setting process and a savings quantum to be delivered in future years within the ABC Programme. This approach will help to deliver the gap identified in the table above and is reflected in the financial summary Appendix 1.
- 5.6 Notwithstanding this approach, we will continue to undertake good ongoing practice in terms of 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.
- 5.7 The financial scenario outlined above and detailed further in Appendix 1 incorporates some resourcing for areas of growth. Within our rolling three-year programme we will need to consider whether we are matching appropriately our spending plans to our policy priorities, demographic trends or changes in demand.
- 5.8 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, our Waste Disposal partnership and CVOne – our City Centre Management company partner. Future funding pressures and requirements for us continue 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.

- 5.9 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. The Total Place initiative that examines the totality of public sector expenditure within a defined geographic area is a recent example of how this might be taken forward. We will incorporate the impact of these developments into our service and financial plans as they arise.
- 5.10 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 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 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. It is increasingly likely that the new Spending Review period starting in 2011/12 will see a large number of grant funding streams either diminish or disappear completely. Where this has not already happened we will need to start planning for the impact of it immediately and through the rest of 2009/10 and 2010/11.
- 5.11 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.
- 5.12 One of the features of the Council's ABC programme is the guiding principle that the delivery of best value is more important than who provides the service. Each of our Fundamental Service Reviews will engage in the "make or buy" debate and for each area of service, 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 joint venture companies or using PFI and PPP approaches). The search for greater Value for Money may lead the Council to consider whether the future route is to manage and commission services rather than deliver them directly. These decisions will be based on an overall assessment of what is the best delivery mechanism in each individual service.
- 5.13 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 as recognised in the regular monitoring reports to Corporate Management Board and Cabinet have been summarised in Appendix 3. The most significant financial risks have already been explicitly provided for in the 2009/10 budget (specifically in relation to Equal Pay and the initial phase of the Project Transform Waste Project) or are being built into future plans for 2010/11 onwards (notably Building Schools for the Future, City Centre regeneration and the threat to levels of capital receipts).

5.14 **Summary Capital Strategy**

5.15 Our Capital Programme for future years is always shaped to a significant degree by the degree to which the current year programme is on schedule (both in terms of its timing and whether expenditure matches budget). It is also affected considerably by capital allocations announced by Government. Given the absence of these fundamental pieces of information at this stage, 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. This will be updated through the budget process and 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. Notwithstanding some specific challenges over the immediate-term we will seek to balance the Capital Programme over the medium term.

5.16 Recent years have seen a familiar pattern with regard to the City's capital programmes, marked by a relatively low level of available resources and a falling away of the level of capital receipts that we have been used to in previous years. The Council had previously planned for significant receipts for tracts of land by Coventry Airport and the Ricoh Arena that have subsequently not materialised. In addition, we anticipate (based on Government announcements) that central government capital allocations are likely to be much lower than previously. With this in mind, it is clear that there will continue to be very little room for new capital expenditure plans in the coming years beyond that for which resources have already been earmarked and identified.

	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m
Shortfall/(Surplus) Between Capital Expenditure and Capital Resources	12	8	7	1

5.17 The position is one that reflects significant reductions in capital receipt forecasts over the short to medium term and the short to medium term position continues to be very challenging. Notwithstanding this the Council has some expenditure commitments already in train either in the form of schemes already started or contractually committed. These schemes were planned in anticipation of the generation of previously predicted levels of receipts. As a result of this there will be a significant shortfall in the level of resources unless the Council undertakes some short-term borrowing to replace the delayed capital receipts.

5.18 In summary, in order to live within our means we need to plan on the basis of a lower overall balance of resources in the medium term. On the basis of our currently approved programme, we nevertheless need to borrow in the immediate term to fund existing spending plans. This borrowing should be repaid from capital receipts when they are achieved over the medium term.

5.19 Against this there is a clear picture that in many areas our infrastructure requires investment and regeneration. 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, BSF, our Waste Disposal Project (Project Transform) and the Swanswell Regeneration Project. Nevertheless, this does not alter the fact that resources are scarce across the remainder of the programme and we are regularly exploring alternative ways in which we can resource our Capital commitments.

- 5.20 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.
- 5.21 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. Unfortunately, the level of government funding does not give us the resources needed to invest in some fundamental areas of service and infrastructure – our highways, our operational property portfolio and our range of information technology systems. In these circumstances, it is proposed to make a stream of investment resources available through revenue funding. As part of our revenue programme we will aim to set aside a tranche of resources - small in the early years but growing incrementally in later years - for capital purposes, upon which allocation decisions will be made annually (See Appendix 1).
- 5.22 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. It should be recognised that we are currently faced by an extraordinary set of circumstances that may lead us to take decisions designed to overcome some short-term difficulties. This may include a range of actions from the significant curtailment of spending plans to the consideration of borrowing in the short to medium term in anticipation of future capital receipts in the medium to term.
- 5.23 The Government's spending announcements in last year's Pre-Budget and Budget reports made allowance for the bringing forward of capital spending plans in an attempt to stimulate the economy. Where these have affected to programmes managed by the City Council (largely within the Children's sector) we have already incorporated these plans within our own.
- 5.24 The current capital spending envelope has negated the need to incorporate 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. This is because the recent lack of resources has restricted us to concentrating on delivering schemes that have already been started and those that have ring-fenced resources attached or which are fulfilling statutory (health and safety) requirements.
- 5.25 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. We will also lobby government for new approaches and new freedoms in relation to capital funding.

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. 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.

- 5.26 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.
- 5.27 Our policy of structured land and property disposal 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. Otherwise, the Council's policy on receipts is that all receipts should be considered corporately and that receipts should only be ring-fenced to specific schemes where this is viewed as being the optimum use of these resources.
- 5.28 We will continue to 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. We will also 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. In the current economic climate this means that some sales may be foregone if the potential sale value does not meet our expectations of what might be achieved over the medium term.
- 5.29 We will review the investments held by the City Council (e.g. our shares held in Birmingham Airport and the University of Warwick Science Park) on a regular basis. If the conclusion of such reviews are that it is financially advantageous to dispose of such interests and that this would be at no strategic detriment to the city then we will seek to disinvest from such interests.

## 6 **Partnership, Participation and Consultation**

- 6.1 Previous medium term financial strategies have outlined some of the areas where the dynamics of funding have undergone significant change in recent years. These have included complex grant arrangements (Standards Fund), forms of governance at local level (New Deal for Communities and Local Strategic Partnerships), the increased use of partnership approaches (Private Finance Initiative and Academies) and the promotion of Joint Commissioning arrangements (such as 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. 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. For instance, we expect the total financial envelope for specific grant to be squeezed significantly after 2010/11 and there has already been evidence that finance for PFI schemes nationally has become harder to obtain.
- 6.2 Some of the most successful local authorities are the ones that are able to work in innovative ways to maximise the availability of resources deliver services. This may involve attracting external funding but it also involves delivering services in ways that move away from traditional service delivery methods. There is now a pressing financial imperative for Coventry to increase the degree to which it explores and takes 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 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.

### **Consultation**

- 6.3 The Council's Consult and Involve Strategy, approved by Cabinet in April 2009, sets out our approach to meeting the new legislative framework. Government expects that the Council will be able to demonstrate that it has in place 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. This process is intended to help the Council make fair and transparent decisions that reflect local needs. The Council is committed to a process that improves trust between different community groups as a central part of ensuring strong community cohesion.
- 6.4 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.
- 6.5 The Government has set out an approach to local participatory budgeting to enable local residents to determine spending priorities for a ring-fenced element of local budgets. The Council has already undertaken a number of initiatives, which involve residents in decision-making including participatory budgeting events and we will need to explore our next steps in this area as part of our Inform, Consult and Involve Strategy.

## 7 **Conclusions**

- 7.1 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.
- 7.2 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.
- 7.3 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

**Forecast Revenue Budget and Resource Position**

	2010/11	2011/12	2012/13
	£m	£m	£m
<b><u>Initial Budget Position</u></b>			
A Base Budget Including Previous Approved Decisions	269.1	275.8	283.8
<b><u>Pressures and Policy Developments Indicated Previously</u></b>			
B City Centre Regeneration Rental Income Loss	1.0	3.0	4.0
C Waste Project Affordability Gap	0.5	1.5	2.5
D Revenue Budget to Support Capital Infrastructure	3.0	4.0	5.0
<b><u>New Pressures and Policy Developments</u></b>			
E City Centre Consultancy Costs	0.5	0.5	0.0
F ABC Programme	1.0	1.0	1.0
G Redundancy & Pension Strain Costs	1.0	1.0	1.0
H ICT Capital - Cost of prudentially borrowing £5m for 3 years, maximum revenue cost £3.7m	0.1	1.3	2.6
I CLYP Social Care	1.0	1.0	1.0
J Budgetary Control Pressures	1.5	1.5	1.5
K Capital Programme Borrowing (loss of receipts) Costs	0.5	1.5	2.0
L Lease and Rental Income Losses	0.6	0.6	0.6
<b>M Net Budget Requirement Before Budget Actions</b>	<b>279.8</b>	<b>292.7</b>	<b>305.0</b>
N Formula Grant (3% cash cut from 2011/12)	(153.0)	(148.4)	(144.0)
O Council Tax (2.5% Increase per annum)	(116.4)	(120.4)	(123.4)
<b>P Resources</b>	<b>(269.4)</b>	<b>(268.8)</b>	<b>(267.4)</b>
<b>Q Resource (Surplus)/Deficit <u>Before</u> Budget Actions</b>	<b>10.4</b>	<b>23.9</b>	<b>37.6</b>
R ABC and Efficiency Savings to Address Deficit	(5.6)	(8.5)	(8.5)
S Other Savings to Address Deficit	(4.8)	(6.6)	(8.3)
T Future Transformation Savings	0.0	(8.8)	(20.8)
<b>U Resource (Surplus)/Deficit <u>After</u> Budget Actions</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**The City Council's Approach to Financial Planning**

**The City Council's Medium Term Financial Strategy is underpinned by the following fundamental underlying approach:**

All resource allocation decisions will arise directly from and be driven by our policy priorities

Revenue and capital programmes will be set within a corporate decision making process with advice from the Management Board to Cabinet

Council Tax levels will increase broadly in line with inflation over the plan period and move us towards becoming an average Band D Council Tax authority

The Council will continually seek to identify savings and efficiencies and will implement these at the earliest opportunity. A detailed annual exercise will set budgets, identifying any necessary changes to base budgets and agreeing new areas of spend and savings

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 seeking to achieve a "golden rule" of not using one-off resources to support ongoing expenditure

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

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

We will achieve balanced revenue and capital programmes over the medium term.

The fundamental principles of the MTFS 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.

### Appendix 3

Corporate Risk Register Reference	Risk	Existing Financial Treatment and Any Implications For MTFS
C001	Poor project management leads to the failure of one or more key corporate projects to deliver the desired outcomes or manage within allocated resources leading to failure to deliver key service and operational priorities, significant financial loss and possible reputational damage.	Financial requirements for key projects are identified as part of project management arrangements and incorporated within medium term revenue/capital programmes as appropriate. Current medium term plans include financial allocations for a number of our major projects including the ABC Programme, City Centre Regeneration, Project Transform and the Street Lighting PFI
C002	The City Council fails to discharge its health and safety responsibilities effectively leading to accidents, injuries or death to the general public, staff or service users. This could result in prosecutions by the HSE, fines and reputational damage to the City Council.	The revenue programme contains ongoing budgets to support our core health and safety duties. Additional resources are identified, often as part of our capital programme, to fund additional programmes of spend where these are identified as being required to discharge our responsibilities. Funding of activity on property and highways are two such areas of activity.
C003	Successful litigation against the Council over equal pay claims causes significant unbudgeted costs of sufficient size to impact on the Council's medium term financial strategy.	Claims are being defended through due legal process. The Council has a provision of £30m for any potentially successful claims supported by a Capitalisation Direction, the revenue consequences for which have been budgeted for.
C004	The Council is unable to produce a balanced budget in the medium term. This would lead to impaired service delivery, unplanned redundancy, reputational damage and reduced levels of customer satisfaction.	The body of this strategy incorporates the measures that will enable us to balance our medium term programmes. In particular this focuses on the actions taken to deliver the Transformation Programme which delivers cost reductions against a programme of agreed areas for review.
C005	Failure of ICT systems and services leading to a severe impact on the day to day operation of the Council. ICT systems are inadequate to meet the challenges of improving and transforming the Council's services with the consequence that the Transformation Programme, the ICT Strategy and other key service priorities cannot be delivered.	Our ICT Strategy prioritises ICT developments to allow the most pressing ones to be delivered within identified revenue and capital resources. ICT continues to be a focus of our capital programme and further resources have been included in the latest medium term financial plans.

C006	<p>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 or are delivered without effective safeguards to prevent harm. The consequence of this could be injury or death of vulnerable individuals, together with exposure of the Council to risk of prosecution, financial loss, reputational damage, poor inspection and CAA ratings and Government Intervention.</p>	<p>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. 2009/10 budget proposals contain additional proposals in respect of Children's social care.</p>
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