

---

Finance and Corporate Services Scrutiny Board (1)  
Cabinet  
Council

7<sup>th</sup> October 2013  
19<sup>th</sup> November 2013  
3<sup>rd</sup> December 2013

**Name of Cabinet Member:**

Cabinet Member (Strategic Finance and Resources) – Councillor Gannon

**Director Approving Submission of the report:**

Executive Director Resources

**Ward(s) affected: All**

**Title:**

Medium Term Financial Strategy 2014-17

---

**Is this a key decision?**

Yes

Cabinet and subsequently Council are being recommended to approve the Medium Term Financial Strategy for 2014-2017

---

**Executive Summary:**

This report presents a Medium Term Financial Strategy (MTFS) for 2014-2017 for adoption by the City Council. The previous strategy was approved in January 2013. The Strategy underpins the medium term policy and financial planning process that is fundamental to setting our revenue and capital budgets. Following the Strategy's consideration by Council, the subsequent meeting of Cabinet will consider the Pre-Budget report that sets out the work undertaken in preparation for the 2014/15 and future years' revenue budget and capital programme.

Notwithstanding the emergence in recent months of some early signs of national economic recovery, the Government's June Spending Round announcement confirmed continuing large cuts to local government resources. Therefore, the fundamental factor shaping the City Council's MTFS continues to be one of unprecedented financial pressure leading to significant reductions in spending levels that are likely to continue in the period up to 2020 and possibly beyond. Indeed, if the current pattern of local government funding continues, this indicates that in real terms, for every £10 of net budget the Council had available in 2010/11 it has less than £9 now and will have nearer £6 in 2024/25.

In summary, the national and local context that frame this Strategy include:

- Year-on-year 15% headline cuts to Government resources and a move towards greater complexity and ring-fencing in areas such as social care and regeneration;
- Underlying demographic demand in Social Care, with increasing numbers of very young and older people;
- The need to protect the most vulnerable people in the city including, for instance, children at risk, children and young people in care and victims of domestic abuse;
- The transfer of schools to Academy status putting increasing pressure on the Council's core education functions and other services that trade with the city's schools.
- The impact of continued difficult economic circumstances affecting both the number of people seeking to access Council services such as Housing Benefit and the financial performance of the Council's income based services;
- Continued expectations on the Council to maintain service levels and standards across the full range of core services despite the financial challenges;
- Upward pressure on Pension Funds' contributions, in particular to fund past service contributions;
- Management of newly acquired responsibilities in the areas of Business Rates and Council Tax Support that carry with them the risk or opportunity of significant financial volatility;
- Business rates income becoming an increasingly bigger aspect of our funding as government grant falls;

This represents a combination of reducing resources, challenging underlying economic conditions, increased demand in some areas, a heightened need to improve the quality of service in others and new challenges represented by government reform. In these circumstances it is crucial that the Council's financial strategy is both robust and flexible. This will provide the financial foundations to support work to ensure that Council services are fit for purpose to protect the most vulnerable as well as providing decent core services for every citizen in the city.

In support of these aims, the City Councils strategic approach to the demands that it faces includes:

- Continued implementation of the abc transformation review programme, reshaping services and making very significant savings. The emphasis of abc (A Bolder Coventry) will move towards challenging the things the Council needs to consider stopping doing or doing in partnership with others, in particular in high spend areas. Central to this will be the need to actively manage the demand for services to enable the Council to focus its services increasingly on the most vulnerable. This means changing the relationship between the Council and its citizens and encouraging those who are able to, to do more for themselves;
- Kickstarting the Friargate business district adjacent to Coventry railway station by rationalising and relocating the Council's office estate into the first office building as an anchor to the scheme. This regeneration project is critical for delivery of jobs and business rate growth for the City, to attract new businesses, boost confidence, to increase city centre footfall, improve the prospects for the City Centre South development and to generate economic prosperity for the City. In doing so, the Council will also generate savings directly through rationalisation of its office estate. The project will provide a platform for modernising many of the ways that the Council works and be a springboard for Council members and officers to operate in far more streamlined and cost effective ways, improving services to Coventry citizens.
- Leading the drive for economic growth, working with partner organisations to achieve this. The maximisation of business related capital investment either by the City Council or via

local partners will be fundamental to facilitating growth and the £50m resources set aside in 2013/14 Budget Setting for supporting such initiatives will be vital in this respect;

- Looking at ways that the Council can invest in the regeneration of the City. This will make Coventry an attractive place to live and work, creating a thriving economy in Coventry with jobs for local people and has the potential to reduce the reliance of local people on some of the services the Council provides. It also enables the Council to attract investment to the city in new buildings which means more business rate income for the council.
- Investing in the city's highways network and city centre public realm works to ensure that the Coventry both is, and is perceived to be, open for business;
- Supporting the City Deal initiative in the sub region, as a way of unlocking major projects and initiatives that will stimulate growth;
- Continuing to provide the financial resources to support programmes of redundancy and early retirement in those areas where reduced levels of employment are required.

Based on initial estimates of both future funding settlements and known or expected future spending pressures, the City Council's indicative financial position moving into the 2014/15 budget setting process shows a major funding gap increasing to £58m in 2016/17 as shown below. This picture will be refined as we move into Budget Setting but gives a clear picture of massive financial challenges. This position will become yet more acute in the period beyond this MTFS based on ministerial announcements about continued spending cuts.

	<b>2014/15 £m</b>	<b>2015/16 £m</b>	<b>2016/17 £m</b>
<b>Revised Revenue Budget Gap</b>	<b>8</b>	<b>29</b>	<b>58</b>

**Recommendations:**

(1) Scrutiny Board 1 is requested to consider whether there are any comments/recommendations that they wish to make to Cabinet.

(2) Cabinet is recommended:

- (a) Consider any recommendations from Scrutiny Board 1
- (b) Agree the report and recommend that Council approve the Strategy.

(c) Council is recommended to approve the Strategy as the basis of its medium term financial planning process.

**List of Appendices included:**

Appendix 1: Analysis of Financial Approach to Risks

**Other useful background papers:**

None

**Has it been or will it be considered by Scrutiny?**

Yes

Finance and Corporate Services Scrutiny Board (1), 7<sup>th</sup> October 2013

**Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?**

No

**Will this report go to Council?**

Yes

Council, 3<sup>rd</sup> December 2013

## Report title: Medium Term Financial Strategy 2014-17

### 1. Context (or Background)

#### 1.1 Financial Background

1.1.1 This strategy supports the Council's medium term policy and financial planning process, and in doing so provides a stable basis from which to deliver the Council's priorities as set out in the Council Plan.

1.1.2 The international financial backdrop is hugely significant for local authorities and the country in general. Although there are tentative signs that the UK economy is starting to recover from the long post 2008 recession, the combination of years of low growth and high levels of debt means that the pressure on UK public finances remains intense.

1.1.3 The Spending Round announced in June 2013 covering the period up to 2016, set out the scale of the pressure on local authority finances. Government figures show a reduction in Coventry's Settlement Funding Assessment of over 10% in 2014/15 rising to over 15% in 2015/16. Based on Government announcements and views expressed by sector commentators the Council expects cuts of this scale in 2016/17 and beyond.

1.1.4 On the whole, local government has performed well since 2010 in delivering savings that are amongst the largest in the public sector. It is likely however, that the easiest savings across public services have already been made, and there is significant pain to come both in terms of future spend reductions and fiscal tightening. The Public Accounts Committee on Local Authority Sustainability published in June 2013 concluded that the Department for Communities and Local Government had not assessed the impact of new funding arrangements on individual councils nor the effect of funding cuts on local government services, especially over the long-term where the ability to meet statutory duties will come into question.

1.1.5 Whilst resources fall, the demand for local authority services increases. The 2011 census reveals demographic changes with a greater number of both the very young and the old within the city. In addition, demand for services continues to be high and/or increasing across a number of areas including looked after children, homelessness, housing benefits and individuals seeking financial assistance. This environment of reducing resources, low economic growth, increased demand and government reform makes it crucial that local authorities consider their role and how they need to radically reshape their services, in order to protect the most vulnerable within an environment of scarce resources.

#### 1.2 National Developments

1.2.1 Apart from the increasing financial pressures that all public bodies face, there is a range of national policy reviews and other developments, which impact on local authorities and require their consideration as they develop their plans. Some are quite specific, whilst others are more cross cutting in their impact. These include:

- The need for **economic growth** is greater than it has been at any time in recent years. At a national level growth is required to help reduce national debt and to ensure the UK remains competitive. Locally, the retention of a share of Business Rates from 2013/14, in part through the operation of multi local authority pooling agreements, has significantly increased the importance of driving growth locally. The potential volatility of Business rates has resulted in a further unintended consequence

of some Council's needing to take a cautious approach to budget setting to allow for unexpected falls in Business Rates.

- The underlying demand and cost pressures in the **Social Care** area remain. The sharing of costs between the individual, local and national government, as set out in the Dilnot Report, is still the likely direction of travel. Although there is no certainty about what any revised system will look like, a major issue for local authorities and public policy makers more generally is how the demand for services can be managed in a way that is fair and equitable, whilst at the same time actively managing cost pressures. Details of the 2015/16 Local Government Finance Settlement indicate that part of the resources set aside from local government allocations has been earmarked for the new burdens in this area. However, the precise way in this will work and whether the funding is sufficient or not remains unclear.
- Changes in **schools** have continued apace, with the role of local authorities being reduced with the setting up of more Academy Schools. As more schools become academies the services provided within local education departments are under pressure to change their size and scope. It is very challenging to maintain a robust central core of education services as the trend to academy status continues and schools fail to buy-back the relevant services from the local authority. Equally, other services, largely those related to facilities management and professional services in Coventry are no longer required by some schools and this is representing a trading pressure for such services.
- As part of the June 2013 government announcement on spending plans, it was indicated that funding through **Council Tax Freeze** grant would continue for another 2 years. Depending on the precise arrangements applicable in future, the City Council will need to choose whether to raise the Council Tax (and increase the on-going revenue available via its Council Tax-base) or to freeze Council Tax levels, with only temporary and partial mitigation of the "cost" through the Council Tax Freeze grant.
- In the light of the increasing burden of public sector pensions including those of the **Local Government Pension Scheme** (LGPS) the Government has taken action on several fronts. The new LGPS 2014 will come into force on 1<sup>st</sup> April 2014 whilst a consultation ended in September 2013 on the future administration of the LGPS. However, neither of these initiatives look likely to address the chronic long-term pensions costs of past service which local government pension funds are now seeking to recoup through increasing local government employer contributions. The next few years will see some significant hikes in contributions across Councils including those for Coventry.

### 1.3 The Local Economic and Financial Context

This section describes some of the city's huge economic challenges. However, it is important to remember that it is now well positioned to meet these.

- 1.3.1 Household incomes are lower than the national average and unemployment higher. In addition, an indicator of general economic health, the "gross value added" is 10% lower for Coventry than the national average. The city's economy has been judged to underperforming by nearly £1 billion per annum and its city centre performs poorly compared to other cities, being 47<sup>th</sup> in the uk list of shopping centres, despite being the 13<sup>th</sup>

largest city. As the gateway to the Coventry and Warwickshire regional economy the city centre is not pulling its weight. A previous study by the Centre for Cities identified that compared to 63 other UK Cities, Coventry was performing less well across a number of economic indicators including business start-ups, business stock and economic activity per head, skills, employment, earnings and house prices.

**1.3.2** However, the city has demonstrated that it is already addressing the challenges through for example the success of the Olympics and in developing innovative initiatives such as the Heatline waste to energy scheme. Furthermore, the city has many key strengths, including: huge economic potential, with over 40,000 businesses located in the city, with a private sector with the appetite to work jointly with public services a quality environment where the urban meets the rural; two top universities; a super connected city where 90% of premises will have superfast connections by 2015. The city and local sub-region is well placed to move forward from a solid base and has been successful in securing significant grant funding through Growing Places, the European Regional Development Fund and the Regional Growth Fund which will be used to help support businesses and invest in local infrastructure.

**1.3.3** The financial starting point for the Council's MTF5 is the forecast budgetary position as at February 2013, when the current budget was set. The **revenue** budget gap assumed in February 2013 was as follows:-

	<b>2014/15 £m</b>	<b>2015/16 £m</b>	<b>2016/17 £m</b>
Starting Point Revenue Gap per 2013/14 Budget Report Before abc Savings	22.0	44.8	61.4
Planned New abc Savings	18.1	36.4	36.4
Starting Point Revenue Gap Per 2013/14 Budget Report After abc Savings	<b>3.9</b>	<b>8.4</b>	<b>25.0</b>

**1.3.4** Subsequent Government resource announcements (including the March Budget and June Spending Round), emerging cost pressures and potential technical savings have emerged since then and the latest position including these developments is shown below.

	<b>2014/15 £m</b>	<b>2015/16 £m</b>	<b>2016/17 £m</b>
Starting Point Revenue Gap (from table above)	<b>3.9</b>	<b>8.4</b>	<b>25.0</b>
Change in Resource Position	(0.1)	12.4	18.5
Combination of Emerging Cost Pressures and Technical Savings	4.4	8.4	14.4
Starting Point Revenue Gap for 2014/15 Budget Setting	<b>8.2</b>	<b>29.2</b>	<b>57.9</b>

This table shows a snapshot of a fluid position. This will be updated as part of the Pre-Budget Report.

**1.3.5** The Council's abc Programme - A Better Council for A Bolder Coventry – was launched in June 2009, and is affecting all the services the Council delivers. The Programme's overall objectives are to achieve better value for money by reducing the costs of delivering services, provide better and consistent customer services, develop and deliver real culture change across every level of the organisation and to invest in new technologies where appropriate to support service delivery. The revenue positions for 2013/14 and 2014/15 already have significant existing abc savings targets built into them and the programme has been instrumental in enabling somewhere approaching 1,000 posts to be deleted.

**1.3.6** The **capital** spend assumed in February 2013 and updated for changes so far in 2013/14 is:-

	<b>2013/14</b> <b>£m</b>	<b>2014/15</b> <b>£m</b>	<b>2015/16</b> <b>£m</b>	<b>2016/17</b> <b>£m</b>
Capital Programme Spend	82	115	56	40

**1.3.7** Government no longer provides capital resources to local authorities through supported borrowing, instead providing funding mainly via specific capital grants. Any other funding has to be identified locally from capital receipts, reserves, revenue contributions or Prudential Borrowing. Aside from the general pressure on public finances, capital reinvestment is constrained as local authorities struggle to general capital receipts at a time of recession. The Council's programme is now balanced over the medium term and does not require any borrowing except for self-financing scheme specific borrowing. This gives the Council's future plans a firm foundation for the investment plans outlined elsewhere in this report.

**1.3.8** The current level of **reserves** (£73.5m as at 31<sup>st</sup> March 2013) is adequate for current known liabilities and approved policy commitments. The Council's uncommitted working balance which stands currently at £7m, equivalent to 2.6% of the net revenue budget, is maintained to cover unforeseen financial problems. Major earmarked reserves include £6.3m to fund potential early retirement and voluntary redundancy costs over the plan period.

**1.3.9** Detailed three year changes to resource levels, cost pressures and proposed savings will be set out in the Pre-Budget report due to be considered by Cabinet on 10<sup>th</sup> December including the detailed proposals for balancing the 2014/15 budget.

## **2. Options Considered and Recommended Proposal**

The remainder of the report contains the proposed Medium Term Financial Strategy. It is recommended that Cabinet and Council approve the Strategy subject to any comments or changes from Finance and Corporate Services Scrutiny Board.

### **2.1 Principles that Underpin the City Council's Approach to the Medium Term Financial Strategy**

**2.1.1** At a strategic level resource allocation is driven by the City Council's policy priorities as set out in the current Council Plan. Within this context, the key strategic principles that underpin the City Council's MTFs are:

- A corporate planning and monitoring process that considers capital and revenue together and given overarching direction by Strategic Management Board (SMB).



Within this framework clear accountability and delegation exists, with budgets managed by the designated budget holder, and reported through Directorate Management Teams, SMB, Cabinet and Audit and Procurement Committee;

- A drive to identify efficiencies and achievable savings implemented as the earliest opportunity, including making savings against existing budgets provided this does not detrimentally impact on the delivery of policy priorities. Abc has been central to this but such activity is not exclusively abc related and the Justify Expenditure Examine Performance (JEEP) initiative is one example of such non-abc led activity.
- Strong project management approaches, including a specific focus on cost control;
- The establishment of a balanced revenue budget and capital programme over the medium term planning period.

## 2.2 Key Components of the Medium Term Financial Strategy

2.2.1 Within the context of those national developments which impact on local authorities, and the severe financial pressures that will be faced, the following aspects form the basis of the Council's MTFS:

- Much of the focus of this financial strategy outlined below is centred on forward looking and positive ways to protect and improve the Council's and the city's financial health. However, this does not lose sight of the fact that the Council's fundamental role is to protect and **support the most vulnerable citizens** in the city. The Council's view is that a bold approach is required to secure greater financial independence at a local level and protect the Council's future resource base. In this way the Council will be best placed to ensure continued support of its most important services, in particular those that secure the safety and security of people in the city.
- In the light of the short-term financial challenges that face the City Council, the implementation of its **existing abc programme** is fundamental to balancing its budget up to the end of 2014/15. Target savings from approved abc reviews over 2013/14 to 2015/16 rise to £44m across a number of areas, most significantly in terms of scale, in the People Directorate. Delivery of the large majority of these savings will represent a significant achievement and it is vital that considerable member and officer attention is devoted to this. Given the stretch targets applied to a number of these reviews, it will remain vitally important to maintain a very strong focus on this. It is also important to recognise that where the achievement of savings proves impossible, after rigorous testing by the appropriate officer and member governance structures, that the Council's financial plans are flexed appropriately to reflect this.
- In the medium term, development of the **next stage of transformation** will become the next most significant factor to enable the Council to achieve its own financial targets. This progression of abc will be vitally important in terms of delivering services as well as being the mechanism for achieving efficiencies and savings. The Council's new organisational structure based on People, Place and Resources will be fundamental to much of this, providing the optimum foundation for streamlining what the Council does and how it does it. As part of this and given the magnitude of the savings required, abc will need to focus on addressing questions of whether the

Council needs to continue to undertake services itself, to do so in partnership with others or to invite others to deliver them on the city's behalf (for instance following the example of joint working in the Council's asset management work with Solihull and Warwickshire councils);

- Perhaps the most critical element of transformation will involve the need to **change the relationship** between the Council and those who use its services. This change will be critical to the achievement of savings going forward, requiring many citizens to do more for themselves such that the Council will, overwhelmingly, provide face to face and dedicated support only to those who are most vulnerable. This will represent some fundamental changes, affecting significantly the customer experience in some services as well those who provide them.
- The Council has now formally approved pursuit of its **Kickstart project** and this will become one of the most important initiatives the Council has embarked upon for many years. The project will involve the rationalisation of Council buildings (from 27 to 9), the provision of a single city centre point of access for the public, transformational changes to how many Council officers work, modernisation of all office based locations and provision of one flagship city centre office. Initial financial analysis indicates that the project will be delivered on a better than cost neutral basis but there is likely to be further scope for further savings as the Council changes its size and shape in years to come. The new building will be the cornerstone of the Friargate regeneration project that will see a new business zone develop in the City Centre. For this range of reasons Kickstart is a central plank of the Council's strategy.
- This Strategy incorporates the driving **economic growth** through a number of complimentary work-streams. The importance of growth to the city, the sub-region and the Council and the opportunities for local government to influence this has never been greater. The Council will promote growth in the following ways:
  - Working in tandem with the Coventry and Warwickshire **Local Enterprise Partnership** (LEP) to help ensure that all relevant private and public sector parties in the region are working together with the common purpose of growing the local economy and increasing prosperity. In addition to the strategic policy direction provided by the LEP, it has already helped to facilitate the securing of major Regional Growth Fund and Growing Places funding to support local infrastructure schemes and initiatives.
  - Through the LEP, participation in and promotion of the Coventry and Warwickshire **City Deal** in partnership with our sub-regional partners and with Government. This will be driven principally through a City Deal Clearing house, to provide targeted support to local business covering areas such as skills, planning and access to finance.
  - Use of £50m resources already identified to support **business growth** within the city. These resources will be available in a variety of ways and could include encouraging businesses to locate to or grow within Coventry by providing the infrastructure, premises and facilities that make a difference to the investment decisions of such businesses.

- Continued participation in the Coventry and Warwickshire **Business Rates Pool** allowing a greater share of any business rates growth to be retained locally. As well as the direct financial benefit of the pool, its existence encourages cross-boundary co-operation and gives a clear statement of intent of the participating authorities.
  - In addition, the Council will pursue pragmatically, case-by-case opportunities to help sustain local strategic businesses, using its cash balances, legal borrowing powers and current low short-term interest rates. The Council will need to actively assess the robust business cases for providing pump priming investment through Prudential Borrowing, supporting key organisations through the **provision of loan finance**, as in the recent examples of Arena Coventry Limited and Coombe Abbey Hotel
- The Council will continue to provide significant investment in its **highways infrastructure** and seek external investment to supplement core financial resources. The quality of the local highways and pavements is an essential component of demonstrating that Coventry is a place that is open for business as well as being central to many citizen's perception of the city as a place to live and work.
  - In line with A Bolder Coventry principals, the Council will continue to work on a range of fronts to help ensure that the city is a place where people want to work and live. Building on the Olympic city legacy, the Council will work to support the vibrancy of the city's **cultural, leisure and sporting offer**. This will include a wide range of interventions including continued support of the Godiva Festival, work to support exciting developments within the city's major sporting and cultural trusts, and continued co-operation to support the Ricoh Arena as a major conference, sporting and entertainment venue within the city. Financial savings and increased coherence of the city's cultural offer are being delivered through the merger of Culture Coventry which aligns with an aspiration to improve the city centre not just through retail but as a venue for event, leisure and cultural opportunities.
  - The local government funding regime is placing increasing emphasis on the importance of locally resources (Council Tax and Business Rates). This Strategy incorporates a planning assumption based on increasing **Council Tax** by 2% - the maximum amount allowed by Central Government in recent years and an amount below prevailing inflation levels. The final decision on Council Tax will be made as part of the Budget Setting process and it is important to recognise that if it is not increased then the real value of the Council's Council Tax-Base (the amount the Council can generate from Council tax income) will not be maintained. As in recent years, in setting the level of the Council Tax, the Council will be faced with a decision of whether or not to accept the **Council Tax Freeze Grant**. Accepting this government grant, and not increasing Council Tax, will have a forecast short term cost of around £1m pa and is likely to reduce resources in the longer term. Whether to accept a Council Tax Freeze Grant will be a central part of each Budget Setting process;
  - In order to maximise and maintain City Council income it is proposed that the Council's default position is that **fees and charges** should increase annually in line with inflation. Beyond this, as part of abc income maximisation review the Council will

rigorously review opportunities for charging where we currently do not, or increasing chargers where these are below the commercial or benchmarked rate. Where appropriate this will also entail an assessment of whether the Council should continue to remain in all of the traded services that it operates currently;

- The **generation of capital receipts** remains an important way in which the Council can generate funds for capital reinvestment in services, driving growth or making savings through the repayment of debt. The generation of receipts will be particularly important in achieving the savings targets of 2 abc reviews: Strategic Property and Income Maximisation. The Council's approach will continue to be to treat capital receipts corporately, either to resource the corporate Capital Programme or support individual projects/programmes as approved at a strategic level. The Council continues to plan for major redevelopment of "City Centre South" subject to appropriate economic conditions and the timing of other connected redevelopment projects. It is becoming increasingly likely that these aspirations will require some degree of investment and/or underwriting by the City Council and one of the strategies for this will be to look at how best the Council can utilise its current asset holdings to support this initiative;
- The council's approach to **commissioning and procurement** has been updated through the abc review to ensure that savings are delivered and that there is better co-ordination across the council, clear and more efficient governance and decision making arrangements, common processes and more commercial approach to the supplier relationships. This will shortly be aligned to the Council's constitutional arrangements. Joint commissioning with partner local authorities and across wider local authority consortia will continue to be important;
- The recently established **JEEP (Justify Expenditure, Examine Performance)** programme sets the agenda for involving staff in developing grass roots ideas for efficiency gains and cost savings, in the run up to the planned move to Friargate. Through the JEEP initiative employees and members have already identified efficiencies through, for example, the recycling of office equipment, the move to e-pay-slips and reductions in printed leaflets. The Council will continue to support this approach;
- From 2013/14 local authorities have been responsible for setting levels of **Council Tax Support**, but with a 10% reduction in resources. This change transferred the financial risk from central to local government. The Council's current policy is to maintain the level of benefit, ensuring that low-income households do not suffer any reduction in support. This policy will be maintained subject to annual review;
- The increasing costs of the **pension scheme** has been reflected in the MTFs for some years. The pension fund actuary is currently undertaking the triennial review of the fund which will take effect from 2014/15. It is anticipated that the cost to the council will rise from 2014/15, particularly given the need to meet the costs of past service. The Council will work with the West Midlands Pension Fund to agree employer pension contributions that strike a balance between being sustainable and affordable, keeping in mind the need to ensure a stable fund over the long-term.

- The **management of reserves** in a way that supports the MTFS and the abc programme. In particular, the City Council's approach continues to be based on:
  - A local "golden rule" that reserves are not to be used to meet on-going expenditure;
  - The classification of reserves as a corporate resource, with Strategic Management Board considering the application of budgeted amounts unspent at year end;
  - Holding reserves for a clearly identifiable purpose. This will include protecting against known or potential liabilities, at a minimum level consistent with adequate coverage of those liabilities, taking into account the overall level of risk faced by an organisation of the City Council's size.

### 2.3 **Technical Assumptions within the Medium Term Financial Strategy**

This MTFS is based on a number of technical assumptions which are outlined below:

- The Council will plan based on the figures released in the Central Government's June 2013 Spending Round. Although significant uncertainty remains about specific aspects of the years after 2014/15 the Council will plan based on a continued downward trajectory of Government resources;
- As a technical assumption, Council Tax increases of 2% per annum will be built into the MTFS. This will be subject to political debate and decision as well as any changes in the Government's capping criteria and interaction with Council Tax Freeze Grant proposals;
- 1% pay awards will be assumed for 2014/15 and 2015/16 in line with indicative Government announcements, rising to 2.5% for 2016/17;
- Business Rate income will be assumed to be inflated broadly in line with existing inflation levels (currently c3%). In addition, the Council's local share of Business Rate growth has been built in equivalent to £2m in 2014/15 rising to £3m in 2015/16;
- The Council's Tax-Base is assumed to grow at 0.6% per annum in line with recent trends;
- The forward financial projections will plan for annual increases in income and expenditure budgets in line with RPIY, currently assumed at 2% per annum. This will be subject to decision within the Budget Setting process which in recent years for instance has withheld inflationary increases on expenditure.

### 3. **Results of consultation undertaken**

- 3.1 No consultation has been undertaken as part of the MTFS. The implementation of the Strategy through Budget Setting and other individual projects, programmes and initiatives will be accompanied by specific consultations as appropriate.

### 4. **Timetable for implementing this decision**

- 4.1 The MTFS will underpin the proposals and approaches that will be set out in the forthcoming Pre-Budget Report and will be implemented in parallel to the proposals in that report from 2014/15.

## **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 important 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 foundations 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 / Local Area Agreement (or Coventry Sustainable Community Strategy)?**

The Council will be faced with increasingly challenging resource constraints over the remainder of this decade. Over time the initial focus to identify savings options that are intended to have as little adverse impact as possible on services to the people of Coventry will inevitably give way in the future to service changes that will have a more marked effect on front-line services.

Within these very difficult circumstances, the MTFS is very much aligned to existing policy priorities such as improving our roads and pavements and improving prospects for jobs and growth that are so critical to ensuring the city's success.

### **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 at mitigating this risk by providing a robust platform from which to deliver balanced budgets. Further analysis of the Council's key risks and how these are addressed in the MTFS is included in Appendix 1.

### **6.3 What is the impact on the organisation?**

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. In addition, the Council has operated several Early Retirement/Voluntary Redundancy windows in recent years as the key mechanism by which it has been able to reduce staffing levels across the Council. It is anticipated that this mechanism will continue to be used periodically and that the Council will continue to reduce employee numbers over the course of the Strategy.

### **6.4 Equalities / EIA**

Equality impacts that flow from the proposals that balance the Council's budget will be subject to assessment prior to the relevant decisions being taken. The forthcoming Pre-Budget Report will provide a further indication of how any equality issues for proposals to balance the budget will be managed.

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

No specific impact

## 6.6 Implications for partner organisations?

The Council's financial plans will have a significant impact upon the way in which it works with its partners over the coming years. The implications of these changes will become clear as individual changes are identified.

### Report author(s):

**Name and job title: Paul Jennings, Finance Manager (Corporate Finance)**

**Directorate: Resources Directorate**

**Tel and email contact: 02476833753 [paul.jennings@coventry.gov.uk](mailto:paul.jennings@coventry.gov.uk)**

Enquiries should be directed to the above person.

<b>Contributor/approver name</b>	<b>Title</b>	<b>Directorate or organisation</b>	<b>Date doc sent out</b>	<b>Date response received or approved</b>
<b>Contributors:</b>				
Michael Rennie	Lead Accountant	Resources Directorate	12/9/13	12/9/13
Lara Knight	Governance Services Team Leader	Resources Directorate	20/9/13	23/9/13
Lisa Commane	Assistant Director Special Projects Finance	Resources Directorate	20/9/13	20/9/13
Ewan Dewar	Finance Manager	Resources Directorate	23/9/13	23/9/13
<b>Names of approvers for submission: (officers and members)</b>				
Finance: Barry Hastie	Assistant Director Financial Management	Resources Directorate	20/9/13	24/9/13
Director: Chris West	Executive Director Resources	Resources Directorate	20/9/13	20/9/13
Members: Cllr Damian Gannon	Cabinet Member (Strategic Finance and Resources)		23/9/13	24/9/13

This report is published on the council's website:  
[www.coventry.gov.uk/meetings](http://www.coventry.gov.uk/meetings)

**Analysis of Financial Approach to Risks**

The following table incorporates the financial approach to manage the major financial risks facing the Council summarised from the Corporate Risk Register Update to Cabinet in April 2013.

	<b>Named Risk and Key Element of Risk</b>	<b>Existing Financial Treatment and Any Implications For MTFS</b>
1	Key projects (see below) - 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. Revised savings profiles are reflected in medium term plans as they arise.
	ABC Programme - Failure to align the "Better Council" and "Bolder Coventry" elements of the programme resulting in non-achievement of the financial and non-financial benefits.	
	Money Matters – Failure to produce a fit for purpose operating model and achieve target savings.	
	Adult Social Care Transformation - Failure to produce a fit for purpose operating model and achieve target efficiency and financial savings.	
	CLYP Review - Failure to deliver practice change and achieve financial savings.	
2	Finance - 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.
3	Equal Pay Claims – Uncertainty around the level of equal pay claims cost and on-going litigation on pay protection.	A significant proportion of claims has been settled from within an original £30m provision established for this purpose. Further claims are being defended through due legal process and the remainder of a reduced envelope of £22.5m set aside for any potentially successful future claims.
4	Safeguarding Children – Risk that children and young people come to significant harm or die when this could have been prevented by Council or other related services.	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.
5	Safeguarding Adults – Risk that vulnerable adults come to significant harm or die when this could have been prevented by Council or other related services.	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.
6	Safeguarding Awareness – Failure to raise awareness of approaches to safeguarding.	Financial provision has been and will continue be provided to support the organisation of appropriate activity as appropriate.



7	School Entering an Ofsted Category – Risk that a school enters an Ofsted category causing a loss of confidence in the school, increased costs to improve performance and reputational damage to the Council.	The implementation of a targeted intervention programme of challenge and support in schools at risk of being graded inadequate. No specific financial implications beyond need to ensure adequate funding of core budgets.
8	Welfare Reform – Risk the Council fails to consider and manage the impact that Welfare Reform will have both on its key stakeholders, (i.e. employees, vulnerable residents) as well as the Council as a whole (i.e. funding, demand for services).	To determine which services in the Council may be affected by changes resulting from Welfare Reform and assess the financial impact that the changes will have on specific services identified, investigating any options for responding to pressures identified.
9	ACL/Coventry City Football Club - The value of the Council's shareholding in Arena Coventry Limited (ACL) is impacted upon by the position of Coventry City Football Club (CCFC) and could lead to reputational issues.	Refinancing the loan arrangements in ACL has acted to protect the Council's shareholding in ACL. Other action includes regular review of current status of events at SMB & Member level, representation on ACL Board of senior Council officers in capacity as Directors, external legal advice sought as appropriate, regular discussions held with other interested parties.
10	Nuckle Project - The significant challenges faced including lack of rail project experience, partnership working dimensions, procurement complexity and complication of external decisions affecting the project. The consequence of this could be significant impacts on the Council from a financial and reputational perspective.	Planned mitigating actions include an approved risk share agreement with project partners to ensure effective management of financial aspects including delivering the project within the agreed financial budget and ensuring that ERDF Funding conditions are complied with. To work with London Midland to agree a train service agreement. To ensure that the impacts from external change are closely monitored/managed.