

Finance and Corporate Services Scrutiny Board (1)  
Cabinet  
Council

13<sup>th</sup> November 2019  
19<sup>th</sup> November 2019  
14<sup>th</sup> January 2020

**Name of Cabinet Member:**

Cabinet Member for Strategic Finance and Resources – Councillor J Mutton

**Director Approving Submission of the report:**

Director of Finance and Corporate Services

**Ward(s) affected:** All

**Title:**

Medium Term Financial Strategy 2020-23

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**Is this a key decision?**

Yes - Cabinet and subsequently Council are being recommended to approve the Medium-Term Financial Strategy incorporating decisions which have financial implications in excess of £1m.

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**Executive Summary:**

This report presents a Medium-Term Financial Strategy (MTFS) for adoption by the City Council. The previous strategy was approved in October 2018. The Strategy sets out the financial planning foundations that support the Council's vision and priorities and the financial and policy context for the Council's forthcoming Budget process. Cabinet will consider proposals within the Pre-Budget Report in November and the final Budget Setting Report will be brought to Cabinet and Council in February 2020.

The national funding background to the MTFS is that the Council is currently within the final year (2019/20) of a four-year funding settlement from Government. A major upheaval in the funding arrangements for all councils that had been signalled for the period from 2020/21 onwards has now been postponed until 2021/22 at the earliest. The Pre-Budget report that will be considered by Cabinet alongside this one sets out the impact of the one-year settlement proposed for 2020/21. Current medium-term estimates are still based on assumptions of local authorities continuing to face significant financial pressures.

The national political environment is subject currently to much fluidity and uncertainty, resulting from deliberations over the UK's exit from the European Union and the dynamic political situation that has flowed from this. The likelihood or otherwise of the Government's ability or intention to adhere to its fiscal rule (that borrowing should remain below 2% of Gross Domestic Product) has been widely questioned by commentators. The short-term impact of this is some short-term additional funding for local government but with no guarantee that this will continue beyond 2020/21. Therefore, concern remains that the pressure on public finances will not ease in a sustained way and that real reductions in available revenue resources and spending levels are likely to continue.

On a local level, the Council continues to be faced with challenging conditions affected by shortfalls in achievement of a small number of existing savings plans and financial pressures in particular within services for children, housing and homelessness. Although the Council has some ambitious Capital Programme plans, the scale and pace of these represent a significant challenge in terms of the Council's ability to deliver them to the required timescales and within its existing project capacity. In addition, the elements of the Programme that are funded by future West Midlands Combined Authority grant approvals will not be able to proceed until resourcing for these grants has been secured through the WMCA.

Notwithstanding the approaches set out in this strategy, the Council will need to maintain dynamic financial models that take account of changes in its medium-term budget position and ongoing re-evaluation of its Capital Programme. This may include adopting some measures which have a shorter-term focus or which re-evaluate the Council's approach to financial risk. These will be set out fully at the point of decision making.

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

- A paramount need to protect the most vulnerable people in the city;
- Expectations on the Council to maintain service levels and standards across a wide range of core services;
- A comparatively high rate of local population growth causing greater demand and expenditure pressures in areas such as housing, social care and waste disposal;
- Future real-terms reductions in government resources within a revised local government funding framework;
- A Business Rates retention system emphasising the continued importance of promoting growth in the local economy;
- A very large Capital Programme which defines the Council's aspirational outlook but which establishes a major programming and logistical challenge in order to deliver it.

Taken together, these factors represent a combination of reducing resources, challenging underlying economic and demographic conditions, increased demand, pressure to sustain the quality of services and new challenges represented by government reform and local structural and governance relationships. In these circumstances it is crucial that the Council's financial strategy is both robust and flexible. This will provide the financial foundations required 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 Council's strategic financial approach to the demands that it faces includes:

- A Council Plan focusing on economic growth, quality of life and a commitment to delivering fundamental services despite fewer resources being available;
- A Local Plan setting the blueprint for taking the City forward, identifying land for new homes, new jobs and new retail and community uses;
- A fundamental commitment to protecting the city's vulnerable children, adults and older people;
- Managing the demand for services selectively, through digital working and community engagement;
- Transformation projects to change the way the Council works and engages with its customers in part to achieve the delivery of savings;
- A programme of major capital schemes to drive regeneration and economic growth in the city including its public realm, the city's highways network and its cultural and leisure offer to make Coventry an attractive place to live and work.

- Growing the city's local income base, within the environment of increasing localisation of funding sources, including Business Rates;
- Partnership working, including as part of the West Midlands Combined Authority, together with voluntary organisations and other partners;
- A continued drive towards income maximisation, including investment in commercial ventures within the context of robust risk management arrangements and mindful of sector guidance;
- A continued Workforce Strategy requiring a workforce working in flexible ways consistent with a modern organisation, ensuring that the Council has the talent in place necessary to deliver the challenging agenda that it faces;
- Seeking to optimise the use of pooled funding available to support social care and health;
- Seeking to modernise, rationalise and prioritise services, consider alternative service delivery models and work in tandem with partners and neighbouring authorities;
- Strong corporate financial planning, monitoring and project management arrangements;

Based on the 2019/20 approved budget, the initial financial gap for the following 4 years as at the start of the new Budget Setting round was:-

	<b>2020/21 £m</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>	<b>2023/24 £m</b>
<b>Revised Revenue Budget Gap</b>	16.7	23.8	30.4	34.4

The position from 2020/21 onwards is based on early estimates and could be subject to major change depending on the outcome of the forthcoming changes in the local government finance regime which will not emerge until 2020. The scale of the financial gap is not unusually large in a historical context or compared with authorities similar to Coventry. It will nevertheless require the Council to consider further reductions in services and the need to prioritise the services that it wishes to maintain in the future and identify those that may be allocated fewer resources or ceased altogether.

### **Recommendations:**

Finance and Corporate Services Scrutiny Board (1) is recommended to

- (1) Consider whether there are any comments/recommendations that it wishes to make to Cabinet.

Cabinet is recommended to:

- (1) Consider any comments/recommendations from the Finance and Corporate Services Scrutiny Board (1); and
- (2) Recommend that Council approve the Strategy as the basis of its medium-term financial planning process.

Council is recommended to:

- (2) Approve the Strategy as the basis of its medium term financial planning process.

**List of Appendices included:**

None

**Other useful background papers:**

None

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

Yes - Finance and Corporate Services Scrutiny Board (1) – 13<sup>th</sup> November 2019

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

No

**Will this report go to Council?**

Yes, 26<sup>th</sup> November 2019

## **Medium Term Financial Strategy 2020-23**

### **1. Context (or Background)**

#### **1.1 Background**

- 1.1.1 This Strategy sets out the financial planning foundations that support the setting of the Council's revenue and capital budgets, including the policy assumptions and financial management framework that underpin the strategy. The process will culminate with the Budget Setting Report in February 2020, following the consideration of the Pre-Budget report November 2019.
- 1.1.2 Although the recently released Departmental Spending Limits for government departments for 2020/21 include a series of largely one-off announcements on funding, local authorities are still likely to face severe financial pressures for the foreseeable future. Indeed, the National Audit Office has reported that local authorities have faced significant central government funding cuts of nearly 50% since 2010/11, which at a time of increasing service demand, particularly in the social care sphere, mean that many authorities are using reserves to fund services in a way that is financially unsustainable.
- 1.1.3 At a local level, resources available to Coventry have reduced significantly in recent years such that in 2019/20 it will receive c£120m less Government funding than it did in 2010/11. Within this environment of downward pressure on resources, the Council has delivered very significant savings and identified other sources of income in order to balance its overall budget. This Medium Term Financial Strategy forms part of the process to refresh the Council's strategic approach to the nature and scale of services it provides in the context of the need to close future budgetary gaps.
- 1.1.4 The implications of the Government Spending Round announced in September 2019 are considered in full in the 2020/21 Pre-Budget Report to Cabinet. The Spending Round contains very little indication of what will happen in the period beyond 2020/21 and it is therefore difficult to predict the implications for the Council's medium-term finances. In broad terms, the assumption is that local government will not experience the rate of reduction in Government funding experienced since 2010 but that inflationary and demographic spending pressures will continue to present a challenging budgetary environment.
- 1.1.5 Approaching the current Budget process, the Council's financial position has remained under pressure as a result of: year on year reductions in Government funding; inflationary pressures; growing costs within a range of services including, looked after children, housing and homelessness, waste disposal and Special Education Needs Transport; and shortfalls in delivery of its existing savings plans. The Pre-Budget Report being taken to Cabinet alongside this report takes a relatively short-term tactical focus on balancing the 2020/21 budget which does not include the more medium-term elements included within this report.
- 1.1.6 Although there is significant uncertainty regarding the national local government funding regime from 2021/22, the starting point for the Council is that it faces a large budget gap. The Council will continue to seek to identify solutions that minimise the impact on services, but it remains highly likely that the overall package of measures will include reductions in those Council services that are considered to be of a lower relative priority.

## 1.2 National and Local Context

1.2.1 Apart from the increasing financial pressures that all public bodies face, there are a range of developments set out below, which impact on the City Council:

- The importance of the West Midlands Combined Authority (WMCA) as a route to maximising investment in Coventry to drive growth and more efficiently co-ordinate services across the sub-region. Of the WMCA's planned contribution of £434m to the Council's capital programme, some £203m has been agreed in principle only, effectively being dependent on future WMCA resourcing decisions. The precise arrangements and processes through which WMCA programmes are financed, through for example any potential Council Tax levy or Business Rates supplement, are yet to be determined. Consequently, the significance of the programmes and the associated resourcing streams mean that these areas continue to represent a financial risk to the authority over the MTFS period.
- The significant uncertainty surrounding local government finances, with the recent government spending round largely focusing on 2020/21. The Fair Funding review of local government finance and 75% Business Rates retention have been delayed until 2021/22 and the impacts of these and the overall local government settlement will be crucial to determining the Council's wider budgetary position.
- The operation of integrated social care and health services within the Better Care Fund, now within the context of Sustainability and Transformation Plans across the health sector. This area continues to operate within a very dynamic environment with expanding adult social care user numbers and increasingly complex care packages. Alongside this, the Government has operated a series of short-term grant funding streams for social care ahead of the delayed Adult Social Care Green Paper. There is no indication at present of how this funding will be organised beyond 2020/21.
- The increasing importance of commercial investments, including property, as a source of income, as the traditional funding base of local authorities has shrunk. Whilst providing the opportunity to generate new, local resources, this presents authorities with different types of financial risk which need to be managed. From 2019/20 authorities have been required to set commercial investment within a Commercial Investment Strategy, designed to manage the risk associated with new types of investment. The Council's strategy is incorporated with the 2019/20 Budget Report.
- The critical importance of regeneration and economic growth, particularly in the light of the planned changes to Business Rates. Within the regeneration arena, the next few years are likely to see significant fluidity in the range of funding streams available from European and sub-regional sources as a result of the UK's expected exit from the European Union and the operation of the Combined Authority.
- The city's large population growth and the consequent demographic and socio-economic trends are causing increases in demand or expenditure pressures in areas such as social care and waste disposal. The costs of housing homeless individuals and families has emerged as a very significant additional cost pressure more recently and now represents one of the most challenging financial developments facing the Council.
- The continued difficult economic circumstances for many resulting from trends including changes to the Government's welfare reforms have affected the number of people seeking to access local government and voluntary sector services.

- A schools sector which continues to be fragmented across maintained, academy and free school provision. This changed face of local education provision and the reduced role of councils is putting more pressure on the remaining rump of local authority education services and finances.
- The peer review of the Council undertaken in 2018 which stressed the need to focus on a number of areas including prioritising action on tackling homelessness; driving the digital agenda; delivering a balanced budget and strengthening the delivery of the change programme.
- The city will benefit significantly from the 2021 City of Culture designation as a result of the forecast increase in visitors to the city and attendance at events and the unlocking of capital investment in cultural assets. The Council has identified resources to support the City of Culture Trust and to cover additional pressure on its own services whilst also agreeing to be the accountable body for a largely grant funded programme of capital expenditure.

1.2.2 There are a number of local factors that support a positive outlook for the city's economic prospects including: the continued strength and success of its two universities; excellent transport infrastructure links; a strong and resilient economy with a growing advanced manufacturing sector; increasing rates of employment and decreasing rates of unemployment; more residents are working in highly-skilled and higher paid jobs; continued attraction of external investment, leading to a rapidly changing city skyline and further investment in Public Realm and local infrastructure within the city.

1.2.3 However, significant challenges still exist for the city measured by the number of neighbourhoods considered to be amongst the most deprived 10% in England, the level of disposable household income, inequalities in healthy life expectancy between areas of the city and the level of homelessness within Coventry. These are set out in full within the Council's Annual Plan Performance Report 2018/19 and improvement in these and other measures will continue to be the focus of activity across Council services. In this regard there are indications that the city is making some positive strides following the latest English Indices of Deprivation 2019 (IoD2019) report, moving from being the 59th most deprived out of the 317 local authorities in 2015 to being the 81st most deprived in 2019. In addition, fewer Coventry neighbourhoods are now amongst the 10% most deprived in England (18.5% in 2015 reducing to 14.4% in 2019).

1.2.4 The starting point for the Council's MTFS is the forecast multi-year programme set out in the 2019/20 Budget Report in February 2019. Whilst the 2019/20 financial year was balanced, the current planning process starts with significant forecast deficits from 2020/21:

Per Budget Report 2019/20	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Forecast Revenue Bottom Line deficit	16.7	23.8	30.4	34.4

1.2.5 The Pre-Budget Report, which will also be considered by Cabinet in November 2019, sets out the detailed financial position over the next 4 years, including emerging pressures and the non-delivery of programmed savings, together with potential technical savings to partially offset the impact of these. Current monitoring of the 2019/20 financial position indicates a broadly balanced position but one which includes some significant pressures across homelessness, Children's Services and SEND (Special Educational Needs and Disability) Transport all of which have been reflected in the medium term forecasts.

- 1.2.6 The current Capital Programme approved in February 2019 included the following expenditure profile:

	<b>2020/21 £m</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>	<b>2023/24 £m</b>
Capital Programme Spend	230.0	100.5	122.9	73.0

- 1.2.7 This Programme, provided for several large investment programmes across the city including the Coventry Station Masterplan, National Battery Manufacturing Development Facility and regionally significant infrastructure schemes through the UK Central Connectivity programme, as well as investment in school buildings and business development. The major proportion of the total planned capital spend of £526m over the next 4 years is being met from grant (£421m), including significant sums through the WMCA. However, the programme also assumes prudential borrowing of £81m over the same period.
- 1.2.8 The level of prudential borrowing funding has increased in recent years, as significant sums have been invested through the capital programme (notably the Friargate building and The Wave sports centre). Whilst the authority has usually been able to cashflow investment through temporarily using other balances, for example grant monies received up-front prior to spend, this is very unlikely to be the case in future. External borrowing will increasingly be required in line with the underlying Capital Programme. The short term/long term mix of any borrowing will be determined by the Council's cashflow needs and the interest rate environment. Current advice from the Council's Treasury Management advisors is delay taking out any long-term borrowing and take advantage of lower interest rates on short-term borrowing available in the market.
- 1.2.9 The Council's revenue reserve balances totalled £81.8m as at 31<sup>st</sup> March 2019 with a further £23.4m of capital reserves that are only available to fund major capital schemes, and £26.4m of reserve balances belonging to or earmarked to support schools. The Council's revenue reserves are reviewed in order to assess their adequacy for current known liabilities and approved policy commitments, with the objective of releasing reserves where they can be better used to drive efficiencies and service improvement or support policy priorities. The make-up of the Council's reserves as at 31<sup>st</sup> March 2019 was:

	<b>Balance at 31st March 2018 £000</b>	<b>(Increase)/ Decrease £000</b>	<b>Balance at 31st March 2019 £000</b>
<u>Council Revenue Reserves</u>			
General Fund Balance	(4,702)	(5,575)	(10,277)
Adult Social Care	(4,798)	1,264	(3,534)
Public Health	(606)	(182)	(788)
Troubled Families	(486)	(609)	(1,095)
Leisure Development	(1,599)	265	(1,334)
Kickstart Project	(5,068)	3,790	(1,278)
City of Culture	(4,750)	0	(4,750)



Potential Loss of Business Rates Income	(3,414)	(4,321)	(7,735)
Redundancy and Early Retirement	(8,261)	(1,809)	(10,070)
Commercial Developments	0	(4,000)	(4,000)
Insurance Fund	(1,595)	(103)	(1,698)
Management of Capital	(6,332)	933	(5,399)
Private Finance Initiatives	(10,781)	612	(10,169)
Other Directorate	(7,194)	(2,295)	(9,489)
Other Directorate funded by Grant	(2,193)	629	(1,564)
Other Corporate	(5,298)	(3,291)	(8,589)
<b>Total Council Revenue Reserves</b>	<b>(67,077)</b>	<b>(14,692)</b>	<b>(81,769)</b>
<u>Council Capital Reserves</u>			
Useable Capital Receipts Reserve	(23,978)	2,511	(21,467)
Capital Grant Unapplied Account	(7,179)	5,285	(1,894)
<b>Total Council Capital Reserves</b>	<b>(31,157)</b>	<b>7,796</b>	<b>(23,361)</b>
<u>Schools Reserves</u>			
Schools (specific to individual schools)	(19,590)	(718)	(20,308)
Schools (related to expenditure retained centrally)	(4,742)	(1,342)	(6,084)
<b>Total Schools Reserves</b>	<b>(24,332)</b>	<b>(2,060)</b>	<b>(26,392)</b>
		0	
<b>Total Reserves</b>	<b>(122,566)</b>	<b>(8,956)</b>	<b>(131,522)</b>

## 2. Options Considered and Recommended Proposal

2.1 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 recommendations from Finance and Corporate Services Scrutiny Board. The Strategy is structured around the following core elements:

- The Council Plan;
- Strategic Policy Assumptions within the MTFS;
- Strategic Financial Management Framework.

## 2.2 One Coventry Council Plan

2.2.1 The MTFS rests on the principles, visions and priorities set out for the City within the One Coventry Council Plan 2016-2024, which was revised in September 2018. In summary these are:

- Globally Connected;
- Locally Committed;
- Delivering our Priorities with Fewer Resources.

The full plan is available on the Council's website or via the following link: [One Coventry Council Plan 2016-2024](#)

## **2.3 Strategic Policy Assumptions within the MTFS**

- 2.3.1 The One Coventry approach is central to the achievement of the aims set out in the Council Plan, by focusing on the way in which the Council and its employees work, both within the organisation and collaboratively more widely, in order to improve services and make the biggest possible positive impact on people's lives.
- 2.3.2 One Coventry Transformation Programme represents a new phase of Budget planning that will require a fresh look at some major areas of expenditure and how savings can deliver a balanced budget. Specifically, the wider One Coventry programme covers four areas:
- Place based services – Delivering local services investing, prioritising and targeting council and partner resources in delivering the long-term wellbeing ambitions of the city;
  - Commercialisation – Optimising income collection, maximising the use of our assets, reducing operational costs and exploring new delivery mechanisms;
  - Digital first – Delivering our Digital Strategy through a more integrated, primarily digital, and cost effective operating model;
  - Workforce strategy – An enabling programme of work to further establish and embed the One Coventry approach and to support effective and efficient ways of working.
- 2.3.3 The Council's Budget plans for 2020/21 contain a short-term tactical approach consistent with the period covered by the Government's Spending Round and taking into account the lack of information on the future for local government finance. This includes the identification of technical savings within corporately held budget areas, savings within service areas generated by working in a more efficient manner or service savings by doing less or working differently where this can be done with a relatively low overall impact on those service and the citizens that benefit from them.
- 2.3.4 However, at the same time work programmes are already well under way to identify opportunities within the transformation themes above that will identify longer-term savings. During the next year there should also be clarity on the future funding regime for local government and some detail on the position for Adult Social Care which current receives significant resources through a range of key grant funding streams.
- 2.3.5 The engagement in partnership working is central to the delivery of the One Coventry Council Plan and the MTFS, through:-
- The Council's membership of the West Midlands Combined Authority providing the opportunity to maximise investment in the city and work more efficiently across the region;
  - Integrated working of Health and Social Care through the Better Care Fund;
  - Partnership with various stakeholders such as the Coventry and Warwickshire Local Enterprise Partnership in driving economic growth;
  - Engaging voluntary bodies in order to develop alternative delivery models to enable local services to be delivered at a reduced cost.
- 2.3.6 Consistent with the One Coventry Commercialisation programme, the Council will continue to drive towards Income Maximisation through a number of routes:
- maintaining the Council's default position that fees and charges should increase annually in line with inflation;
  - identifying opportunities to commercialise existing activities or identify new activities that are consistent with a commercial approach.

- generating capital receipts where there is a clear business case for doing so by disposing of property and thereby providing funds for capital reinvestment in services, driving growth or making savings through the repayment of debt.
- 2.3.7 The Council will look for opportunities to invest in commercial ventures in order to secure a financial return where this is consistent with its priorities, the One Coventry Council Plan and the Commercial Investment Strategy. Such investment, for example in the further development of Friargate and the Materials Recycling Facility, will potentially include property schemes, share purchase and the provision of loans to external organisations, and will usually be designed to meet both service and financial objectives. Whilst this presents the Council with significant financial and service opportunities it is increasingly challenging the Council to work in new ways, with new skills, whilst managing different types of risks inherent to more commercial types of investment.
- 2.3.8 Through the Local Plan, the Council is seeking to take the city forward by working closely with its neighbours and partners. In order to drive further growth the plan identifies land to satisfy the demand for homes, community and commercial uses, as well as addressing the need for digital connectivity and the right infrastructure.
- 2.3.9 The Capital Programme will continue to be resourced from a number of sources including: prudential borrowing, capital receipts and grant. The Council will seek to restrict the revenue funding of capital to on-going programmes of expenditure. Given the level of capital programme in recent years and going forward, the Council is more likely to need to borrow for capital investment than it has in recent times. When borrowing the Council will look beyond the traditional source, of the Public Works Loans Board (PWLb), in order to minimise financing costs.
- 2.3.10 The Council is obliged to work towards ensuring that its pension liabilities within the West Midlands Pension Fund are funded. The Council's level of funding last reported was at 77% and its contributions to the pension fund stand at 27.3% in 2019/20 as a proportion of the superannuable payroll. The next triennial review of employer pension contributions will take effect from 2020/21 and the Council is expecting to receive an update on this shortly. As an alternative to making monthly payments, in order to efficiently manage the burden of contributions, the Council will seek to make upfront payments where this can be demonstrated to represent value for money and can be managed in cash-flow terms. The Council will continue to work with the West Midlands Pension Fund to agree employer pension contributions that strike a balance between increasing the funding level over the long-term and maintaining sustainability and affordability in relation to the Council's overall financial position.

## 2.4 **Strategic Finance Management Framework**

- 2.4.1 The Strategic Financial Management Framework encompasses the Council's strategic financial management processes and also the key financial assumptions on which the MTFS rests.
- 2.4.2 The financial management processes that underpin the MTFS are:-
- A corporate planning and monitoring process that considers capital and revenue together;
  - Overall direction undertaken by Strategic Management Board (SMB), with Corporate Leadership Team overseeing transformation programmes and quarterly monitoring;
  - A framework founded on delegation and clear accountability, with budgets managed by the designated budget holder, reported through Directorate Management Teams, SMB, Cabinet and Audit and Procurement Committee;

- A drive to identify efficiencies and achievable savings to enable the Council to optimise delivery of its policy priorities;
- Strong project management approaches, including a specific focus on cost control;
- Where feasible, the establishment of a balanced revenue budget and capital programme over the medium term planning period.
- The management of reserves in a way that supports the MTFS and the Council's priorities. In particular, the City Council's approach is based on:
  - A policy that reserves are not to be used to: (i) meet on-going expenditure or (ii) fund capital expenditure other than for mostly short life asset rolling programmes or in exceptional circumstances, for capital schemes of major importance;
  - The classification of reserves as a corporate resource, with Cabinet via 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.

#### 2.4.3 The key financial or technical assumptions that underpin the MTFS are:

- The Council's funding level for 2020/21 has been set out indicatively by the Government's one year Spending Round. Beyond that, the initial forecast assumes resource levels that are broadly constant over the remaining years of the medium term plan;
- As a technical assumption, Council Tax increases of just under 2% per annum and no further Social Care precept increases beyond 2020/21. This will be subject to political debate and decision as well as any changes at a national level;
- The existing 2% local government pay award has been built in for 2019/20 and beyond this. This area will be kept under close review and it is expected that the Council will continue to reflect sector agreed pay awards;
- Business Rate income will be assumed to be inflated broadly in line with recent CPI inflation levels but flexed each year where shorter term inflation expectations dictate.
- Planning on the basis of the underlying Council Tax-Base growing at 0.6% per annum in line with historical trends but flexed each year where shorter-term expectations dictate;
- The budget for the Council's Asset Management Revenue Account will continue to be reviewed annually in detail as part of the MTFS, taking into account any impact of changes in: the capital programme, cash-flow forecasts, the level of provision to repay debt through Minimum Revenue Provision (MRP) and forecast interest rates. The Council's Minimum Revenue Provision (MRP) policy will be based on an approach that is both prudent and affordable in a way that reflects the long term nature of local authority debt and assets;
- Forward financial estimates will be guided by existing CPI inflation levels in line with practice adopted across a broad range of public sector areas. This will provide the financial planning benchmark for increases in fees and charges and any areas of expenditure subject to specific inflation requirements assessed by the Director of Finance and Corporate Services. Actual increases in fees and charges will depend upon local factors such as the need to generate sufficient income to meet the cost of trading services. The majority of non-employee based expenditure budgets will not be inflated – the assumption will be that continued procurement and commissioning work plus underlying efficiency savings and the reduced purchasing requirements of some services will deliver savings equivalent to the cost of inflation. A number of areas subject to external contracts are more likely to reflect inflation patterns dictated by pay inflation and this expectation will be built into Council budgets in the affected areas.

### **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 for setting the 2020/21 Budget.

### **5. Comments from the Director of Finance and Corporate 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. Taking into account both the strategic policy and financial management assumptions set out in the report, a revised projected financial position is set out in the Pre-Budget Report.

Moving into the next phase of financial planning the initial position shows forecast gaps rising to £34m in 2023/24. In addition, there are further developments which could affect the Council's Budget position adversely over this period: challenges in delivering its remaining savings targets, growth in demand pressures across several major services and the uncertainty surrounding the local government finance regime.

It is clear that Coventry faces similar challenges and major policy choices to many other authorities and the size of the gap makes it inevitable that areas not previously considered will now need to be reviewed with some services being delivered differently or quite possibly not at all. In addition, the Council will need to consider some financial approaches that provide some flexibility allowing a relatively short-term focus. This provides the time for the Council to identify the further medium-term measures linked to the One Coventry approach and set out in this report. In addition, the Council will continue to review other measures of both a one-off and on-going impact to help balance future budgets. These approaches may include but will not be restricted to; the use of reserves, the use of Capital receipts, repayment of debt, investment in property and other investment assets, application of the Council's Minimum Revenue Provision policy and updating estimates of the Council's Business Rates and Council Tax resources.

#### **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 Plan?**

The Council will continue to be faced with challenging resource constraints in the coming years. Whilst the focus is to identify additional income generation and savings options that

are intended to have as little adverse impact as possible on services, this will not always be possible, and it is inevitable that changes will have a more marked effect on front-line services. Within these very difficult circumstances, the MTFs is closely aligned to the One Coventry Council Plan priorities 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.

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

The Council will continue to be faced with some decisions about which are its core priorities, which services it may no longer be able to afford and the best mechanisms through which to deliver its services. In addition, the Council will continue to make selective use of early retirement/voluntary redundancy as a mechanism by which it is able to reduce staffing levels across the Council and will review elements of the pay and conditions of its employees through the Workforce Strategy.

## **6.4 Equality and Consultation Analysis**

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

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

No specific impact.

## **6.6 Implications for partner organisations?**

Implementation of the Council's financial plans continue to affect the way it works with some of its partners and the implications of these changes need to be managed in consultation with partners as individual changes are identified.

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