
Finance and Corporate Services Scrutiny Board (1)
Cabinet
Council

11th November 2015
24th November 2015
1st December 2015

Name of Cabinet Member:

Cabinet Member for Strategic Finance and Resources – Councillor Gannon

Director Approving Submission of the report:

Executive Director Resources

Ward(s) affected: All

Title:

Medium Term Financial Strategy 2016-19

Is this a key decision?

Yes

Cabinet and subsequently Council are being recommended to approve the Medium Term Financial Strategy for 2016-2019 which involves financial implications in excess of £1m

Executive Summary:

This report presents a Medium Term Financial Strategy (MTFS) for 2016-2019 for adoption by the City Council. The previous strategy was approved in November 2014. This Strategy sets out the financial planning foundations that support the Council's vision and priorities and leads to the setting of the Council's revenue and capital budgets. The Strategy will be considered at the same meeting of Cabinet alongside the Council's Pre-Budget Report that sets out the work undertaken in preparation for the 2016/17 and future years' revenue budgets and capital programme.

The Government's July 2015 Summer Budget announced a further period of public sector spending reductions over the course of the new Parliament and this provides a key backdrop to the Council's medium term financial position. However, further detail on the local future years funding position will not be clarified until after the results of the forthcoming Spending Review, due to be published on 25 November and the Local Government Finance Settlement expected in late December. The high likelihood is that these will confirm continued cuts in Revenue Support Grant for local government on a trajectory which is broadly consistent with cuts made since 2010. Therefore, the fundamental factor shaping the City Council's MTFS continues to be one of unprecedented financial pressure leading to further 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 just over £7 now and will have nearer £5 in 2024/25.

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

- A paramount need to protect the most vulnerable people in the city including children at risk, children and young people in care, victims of domestic abuse and vulnerable adults and older people;
- Year-on-year 10% headline cuts to Government resources and a move towards greater complexity and ring-fencing in areas such as social care, health and regeneration;
- Fast population growth causing greater demand or expenditure pressures in areas such as housing, social care and waste disposal;
- An increasing Council focus on promoting growth in the local economy
- Changes to the national frameworks for delivering social care, including where this interacts with the health sector, driven through the Care Act and the Better Care Fund.
- The impact of continued difficult economic circumstances for many, affecting both the number of people seeking support from Council services and the financial performance of the Council's income based services;
- Upward pressure on Pension Fund contributions, in particular to fund pension past service deficits;
- Management of responsibilities in the areas of Business Rates and Council Tax Support that carry with them the risk of significant financial volatility;
- Business Rates and Council Tax income plus locally generated rents, fees and charges becoming an increasing proportion of the Council's funding as government grant falls. Government plans have been announced which are intended to allow councils to retain 100% of Business Rates income before the end of the current Parliament
- 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.
- More complex service delivery models across the Council driven by the need to modernise and rationalise services and work in tandem with partners and neighbouring authorities.
- Continued expectations on the Council to maintain service levels and standards across the full range of core services despite the financial challenges;

In addition, on 13th October 2015 the Council took an in-principle decision to join with other councils across the region to form a West Midlands Combined Authority (WMCA) - a statutory body to facilitate collaboration and joint working between local authorities to improve economic development, regeneration and transport in the area. The precise structure, functions and financial arrangements of the authority continue to be developed at this time. In particular, it is possible that a Devolution Deal will be struck between WMCA and Government, seeing additional delegations and devolution of power and resources to the West Midlands. It is too early to predict the financial implications of this for the City, and the impact on the MTFs.

Taken together, these factors represent a combination of reducing resources, challenging underlying economic and demographic conditions, increased demand, a heightened need to improve 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 Councils strategic financial approach to the demands that it faces includes:

- A fundamental commitment to protecting the city's vulnerable children, adults and older people.

- Identifying unprecedented savings from new strategies incorporating Kickstart, the Customer Journey and Connecting Communities (formerly City Centre First).
- Integral to these new strategies, changing the relationship between the Council and its citizens reflecting the reality that the Council will provide a smaller range and lower level of services in new ways and out of far fewer locations.
- Leading the drive for economic growth and stimulating the local economy through a combination of the Coventry Investment Fund, externally funded Regional Growth Fund, Growing Places Fund and other Local Enterprise Partnership funding streams, the City Deal initiative and working up the possibility of a WMCA Devolution Deal that will drive economic and business rate growth;
- Moving the Council's main customer facing and office based activities into the newly operational city centre Customer Services Centre and a purpose built office block within the forthcoming Friargate business district in order to regenerate the City, transform the Council and deliver savings.
- Transforming through digitally enabling Council services to deliver efficiencies, improved customer experience and to keep pace with modern ways of working.
- A new Workforce Strategy requiring a significantly smaller 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.
- Doing things differently by considering alternative service delivery models and options for delivering service outcomes in different ways with less reliance on Council delivered services.
- Seeking to optimise the use of pooled or new funding available to support social care and health
- Providing the local planning and infrastructure environment to enable the level of housing growth required to match the growth in the city's population
- Investing in the environmental elements that support the regeneration of 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.

Based on initial estimates of future funding settlements, the City Council's indicative financial position moving into the 2016/17 budget setting process shows a major funding gap increasing to £28m in 2018/19 as shown below. This gives a clear picture of the massive financial challenges faced by the Council. This financial position is developed further in the Pre-Budget Report being considered alongside this MTFs at the same Cabinet meeting and can be expected to become yet more acute in the period beyond this MTFs based on ministerial announcements about continued spending cuts.

	2016/17 £m	2017/18 £m	2018/19 £m
Revised Revenue Budget Gap	13.1	15.8	28.0

Recommendations:

- (1) Finance and Corporate Services Scrutiny Board 1 is recommended to consider whether there are any comments/recommendations that they wish to make to Cabinet.
- (2) Cabinet is recommended to:
 - (a) Consider any recommendations from Scrutiny Board 1
 - (b) Agree the report and recommend that Council approve the Strategy.

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

List of Appendices included:

None

Other useful background papers:

None

Has it been or will it be considered by Scrutiny?

Yes

Finance and Corporate Services Scrutiny Board (1), 11th November 2015

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, 1st December 2015

Medium Term Financial Strategy 2016-19

1. Context (or Background)

1.1 Financial Background

- 1.1.1 This Strategy sets out the financial planning foundations that support the Council's vision and priorities and leads to the setting of the Council's revenue and capital budgets.
- 1.1.2 The Government spending review announced in July 2015 will be reported in detail as part of the Autumn Statement in late November, with the Local Government Settlement expected in December. However, it is clear that severe financial constraints will remain until at least 2019/20, when the Government has targeted a Budget surplus. The extension of the existing protection of Health, Education and Overseas Aid budgets to cover Defence as well, means that unprotected budgets including local government will need to find national savings of up to £20bn by 2018/19. Government have advised non protected Departments to plan for cuts of 25 to 40%. It can only be assumed that cuts to Local Government funding will be at the upper end of this range.
- 1.1.3 Resources available to Coventry have fallen by c£80m over a four year period to 2015/16, and its Settlement Funding Assessment could fall by a further amount in the region of £40m by 2018/19. Taken together, the austerity measures implemented by the Government will have led to cuts in Coventry's core government funding of approaching 55% over 7 years.
- 1.1.4 Local government has delivered significant savings in recent years and in broad terms the most straightforward savings have already been made. The continued downward pressure on public service resources will have significant future impacts on what councils do and how they do it. A need to radically reassess which services continue to be provided and their nature and scale is further accentuated by the ever increasing demand for services, particularly in the social care arena.

1.2 National Developments

- 1.2.1 Apart from the increasing financial pressures that all public bodies face, there is a range of national developments set out below, which impact on local authorities.
- 1.2.2 The establishment of Combined Authorities provides regions with the opportunity to use powers and resources devolved from government in order to develop services across a number of areas, including the transport, economic development and housing, as well as securing greater finance for localities. A total of 38 proposals have been submitted to government from across the country, including the West Midlands, of which Coventry forms part.
- 1.2.3 The Better Care Fund is now operating with the aim of integrating health and social care services in order to ensure that people receive improved, more personalised care services. From 2015/16 NHS and local government budgets totalling £5.3bn have been pooled between the local authorities and Clinical Commissioning Groups to deliver improved outcomes for citizens.
- 1.2.4 The Care Act represents the most significant reform of care and support in more than 60 years, putting people and their carers in greater control of their care and support. The main provisions were implemented on 1 April 2015. However, the "care cap" through

which the cost of care services to the individual were to be limited to £72k and the associated changes to the means test have now been postponed until 2020.

- 1.2.5 In the regeneration arena, a range of different funding streams, largely of a capital nature, have been made available on a sub-regional basis for local government and businesses to allocate through Local Enterprise Partnerships.
- 1.2.6 Economic growth has been an important part of the Government's financial recovery plans with the intention that tax revenues will recover to help bridge the national budget deficit. The current Business Rate regime whereby local government retains a share of local business rates growth ensures a direct link between growth and income for local authorities and government is now planning to extend this to cover 100% of Business Rates income although details of how and when this will operate remain unclear.
- 1.2.7 Population growth and demographic and socio-economic trends are causing increases in demand or expenditure pressures in areas such as housing, social care and waste disposal. There is a continued dialogue between national and local government on the need for a greater level of new housing building across the country. The ageing population represents an increasing pressure on social care services for older people whilst a range of other societal and health related trends has increased demand both in other adult social care services and in children's social care.
- 1.2.8 Notwithstanding the gradual economic recovery over the recent period, there are continued difficult economic circumstances for many, affecting the number of people seeking to access local government services and those provided by the voluntary sector, working in partnership with local councils. The Summer Budget included proposals for further welfare reform changes, the further impacts of which will be only become clear over time.
- 1.2.9 The schools sector continues to experience greater fragmentation with the move towards free schools and academy schools. The government has indicated that the drive towards schools becoming academies will continue, with the Prime Minister setting out his aspiration that every school should become an academy. This is changing the face of local education provision and reducing the role of councils as local education authorities, putting pressure on the remaining rump of local authority education services and budgets and balance sheets.
- 1.2.10 The Government continues to have a tight rein on the level of Council Tax increases nationally. Council Tax Freeze grants have been provided for authorities that have frozen tax rates whilst caps have been placed (equivalent to a 2% rise) on the level of increase that can be approved without the need for a local referendum.
- 1.2.11 National pension reforms have failed to address the long-term problems of public sector pensions, including the local government scheme. On a national basis, many local councils are likely to face massive increases in employer pension costs over the coming years at a time when budgets are under severe pressure from the reduced grant settlements referred to above.

1.3 The Local Economic and Financial Context

- 1.3.1 Coventry has significant potential for growth with two global universities, an unrivalled location, exceptional transport infrastructure links and a talent pool for employers to recruit across the region. The Centre for Cities 2015 review of the condition of UK cities presented an encouraging picture of the city's potential with above average growth (by size of city) in the number of business, jobs and housing stock. There is also significant potential for the City to grow as part of a Devolution Deal and/or as a consequence of

High Speed 2 rail link and the ancillary developments which are being planned and which lie within a few miles of the City. However, Coventry's economy is underperforming, in particular the City Centre, being reported previously as 47th in the UK list of shopping Centres despite being the 13th largest City. Coventry recognises the significant headroom for growth and is working hard to provide the economic stimuli it needs to address this.

- 1.3.2** The financial starting point for the Council's MTFs is the forecast position as at budget setting in February 2015, reflected in the table below with a budget gap rising to £28m. The Council's Pre-Budget Report which will be reported to Cabinet alongside this report will incorporate the revisions to this base position. These are likely to include the latest estimate of Government resources, the impact of lower financing costs due to reduced capital programme borrowing and an update on the Council's Council Tax and Business Rates resources. At the time of writing, it is expected that the balance of these changes will close the revenue gap for 2016/17 although it is fully expected that significant gaps will remain for future years.

	2016/17 £m	2017/18 £m	2018/19 £m
Revenue Gap per 2015/16 Budget (Feb 2015)	13.1	15.8	28.0

The level and nature of activity within the Council's social care services is creating very large cost pressures whilst it also faces significant challenges in delivering the budgeted service and workforce transformation savings from Kickstart (including customer journey), Workforce Strategy, Connecting Communities and Doing Things Differently. These existing savings rise to £40.4m by 2017/18. Further work is on-going to establish the likely medium term implications of these issues and the strategies for addressing the budget challenges resulting from them. However, it is important to recognise that detailed plans do not yet exist for delivering all of the savings required. The Council needs to maintain a very clear focus on identifying and developing the specific transformation approaches that will be necessary to achieve existing targets in the MTFs and ensure that all the relevant stakeholders are involved in and have an opportunity to shape these approaches.

- 1.3.3** The current Capital Programme approved in February 2015 per the table below, provided for a number of large investment programmes across the city including the construction of the Council's Friargate office; Coventry Station Masterplan; Nucleo rail project; a new city centre leisure facility, as well as investment in school buildings and business development. The Programme will be updated as part of the 2016/17 Budget including an assessment of the sources of funding and the degree to which the Council will need to undertake borrowing to fund expenditure.

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Capital Programme Spend	124.8	60.3	41.3	17.5

- 1.3.4** The Council's **reserve balances** (£84.5m as at 31st March 2015) have been reviewed recently as part of a joint officer/member working group which has assessed their adequacy for current known liabilities and approved policy commitments. As part of this exercise £5.2m of balances have been identified as being able to be freed up to

contribute to the Council's corporate Budget Setting process, through the funding of employee severance costs which in-turn will facilitate the future transformation savings required. The Council's uncommitted working balance which stands currently at £5.2m (£7.3m at 31st March 2014), equivalent to 2.2% (2.8% at 31st March 2014) of the net revenue budget, is maintained to cover unforeseen financial problems. The review determined that this balance remains at an appropriate level.

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 changes from Finance and Corporate Services Scrutiny Board. The Strategy is structured around three core elements:
- The Council Plan;
 - Strategic Policy Assumptions within the MTFS;
 - Strategic Financial Management Framework;

2.2 Council Plan

- 2.2.1 The MTFS rests on the principles, visions and priorities set out for the City within the Council Plan, which was revised in July 2015. In summary these are:
- Globally Connected: promoting the growth of a sustainable Coventry economy that benefits the city and making sure that residents share in the benefits;
 - Locally Committed: improving the quality of life for Coventry people by working with local communities and especially for our most vulnerable residents;
 - Delivering our Priorities with Fewer Resources:
 - Making the most of our assets;
 - With active citizens and strong and involved communities.

The full plan is available on the Council's website or via the following link: [Coventry Council Plan - July 2015](#)

- 2.2.2 In 2014 the Council received the 2014 Ofsted Inspection Report which assessed the Council's Children's Services as inadequate. Amongst other measures this has led to a need to increase capacity within the service to ensure appropriate caseload levels for social workers. In addition, there has been a very significant increase in the number of referrals to the Council's social care service causing a heightened focus on this area. Protection of these vulnerable children is the paramount policy priority for the Council and as part of 2015/16 Budget Setting the Council approved a very significant financial investment to ensure that the service is resourced to meet its immediate demands across the city. Over the medium term, it will be necessary to ensure that social care and early intervention services are delivered in a way that strikes an appropriate balance between service need and the achievement of value for money.

2.3 Strategic Policy Assumptions within the MTFS

- 2.3.1 The policy assumptions that will drive the Council's financial strategy are set out below.
- 2.3.2 The Council's transformation programme is now centred on four key overlapping strategies: **Kickstart**, incorporating **Customer Journey**; **Connecting Communities (formerly City Centre First)**; **Workforce Strategy** and **Doing Things Differently**. These

strategies are aligned to and are being driven by an extensive rationalisation of the Council's office estate, investment in new technology to support agile working and an improved customer experience including a shift towards enabling the Council's customers to self-serve on line.

- 2.3.3 The **Kickstart and Customer Journey** projects will provide a platform for modernising the way the Council works and be a springboard for Council members and officers to operate in far more streamlined and cost effective ways. The Friargate business district regeneration project adjacent to Coventry railway station continues to advance. The replacement of the ring road junction and the construction of the first office building as the Council's office base provide a visible sign of the major change in the city. 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, to help facilitate the City Centre South development and to generate economic prosperity for the City.
- 2.3.4 In addition, the **Customer Journey** project will help to change the way that citizens access services, with decreasing dependence on face to face services except for the most vulnerable and increasing use of web-based solutions which are more convenient for many of the Council's customers. The establishment of the imminent Customer Services Centre in Broadgate House will provide a focus for customer contact within the city centre.
- 2.3.5 The Council's Connecting Communities programme savings target (formerly City Centre First) was established with the aim of rationalising the Council's suburban estate and delivering or co-ordinating a range of services from a smaller number of suburban hubs. Further work has continued to explore the best way of delivering the strategy and this will result in a forthcoming report recommending a series of proposals as a basis for consultation.
- 2.3.6 The Council's **Workforce Strategy** has already seen a number of actions put into practice including a voluntary redundancy programme within 2014/15, centralising the management of salary budgets and tight control over filling any vacant posts. Further work continues to consider the range of potential options on offer. This will include a further voluntary redundancy programme and other potential steps that could affect pay and conditions for Council employees. Any such changes will be subject to member approval and consultation with the Trades Unions.
- 2.3.7 **Doing Things Differently** incorporated a number of individual savings proposals, some of which began to introduce the concept of changing the Council's relationship with its citizens. This entails encouraging those who are able to, to do more for themselves so that the Council can focus its scarce resources on the most vulnerable citizens. In order to direct services to those in most need the Council, at a time of great financial pressure, will continue to engage in a conversation with the people of Coventry in order to manage down the demand for services. To achieve this, the Council will gain greater understanding of its communities and insight into what the different needs are across the city. This will put it in a stronger position to roll out new service delivery models and options for delivering service outcomes including co-designed services, social and mutual enterprises and Coventry citizens playing a greater role in the future of the City. In addition, the Council will engage in new ways of working across the City embracing digital platforms to reach new sections of the community.
- 2.3.8 The development of the **West Midlands Combined Authority** provides both the City and the region with a significant opportunity to secure greater devolved powers and resources, and create a structure that can help facilitate economic growth across the region and improve the degree of integration in other areas, specifically transport in the first instance.

- 2.3.9 Although the introduction of the cost cap under the Care Act has been postponed until 2020, a number of changes have now been implemented within care services. In particular, the Council will work co-operatively with the local (Coventry and Rugby) Clinical Commissioning Group, with the intention of improving personalised care for those in need. The integration of services and the pooling of resources within the Better Care Fund support this drive to improved services. However, the demand and associated cost pressures remain.
- 2.3.10 The Council continues to work with partner organisations to invest in the regeneration of the City and lead a drive for economic growth. Projects such as the Cathedral Lanes redevelopment and FARGO have been supported through the Coventry Investment Fund (CIF). The fund, has made available up to £50m to maximise business related capital investment and support growth initiatives. The CIF builds on the success of other externally funded programmes such as the Regional Growth Fund, Growing Places and the City Deal initiative, complementing existing funding streams and meeting the gap not addressed by these funds.
- 2.3.11 The Council will continue to consider the timing and options to proceed with plans for the City Centre South project, designed to regenerate a significant part of the city centre. The progression of the City Centre Leisure facility, further city centre Public Realm works and Friargate will complement any future City Centre South project, which will only go forward on the basis an improved retail offer based on a sustainable financial model.
- 2.3.12** On a case by case basis the Council will provide commercial loan finance to key organisations, such as Coombe Abbey Hotel, to give opportunities for important local businesses to develop and flourish. The starting point for this type of arrangement is that it will be no worse than cost neutral to the Council and that it will support the regeneration of the city and/or that it will protect the Council's financial or strategic interests.
- 2.3.13** Through the Local Plan the Council will work with its neighbours to secure the most appropriate and sustainable locations for housing growth across the housing market area. In order to facilitate the growth in the local population and housing stock, work will continue to invest in the city's highways network and local transport infrastructure which will help to ensure that Coventry both is, and is perceived to be, open for business. Investment will also continue in the making Coventry an attractive place to live and work, with further works on the city's public realm and local leisure facilities for instance. The Council will take advantage of opportunities offered by the Community Infrastructure Levy, chargeable on new developments, to support improvements in infrastructure to support growth within the city.
- 2.3.14 The 2015/16 approved capital programme includes £11m of funding from revenue resources of which over £6m is on-going. The need to identify one-off revenue resources to help support balancing the revenue budget has led to consideration of whether this approach remains appropriate or whether use of Prudential Borrowing could be used as an alternative. This would free up revenue, allowing resources to be directed towards making the savings required within the medium term revenue programme. The use of Prudential Borrowing would spread the cost impact over a number of years, better matching the period over which the capital assets are used. However, higher Prudential Borrowing would increase the Council's debt and the cost of interest over the longer term. The Council's approach will be to continue to fund on-going programmes of capital spend in the areas of highways, property and ICT from on-going revenue sources. However, it will seek to minimise any further revenue funding of capital, in particular where the capital expenditure is of a one-off nature.

2.3.15 The Council funds its capital borrowing repayments by making an annual Minimum Revenue Provision (MRP) charge to revenue, in line with its MRP policy. The underlying requirement is that MRP should be at a prudent level. In the light of severe financial pressures many authorities are rescheduling MRP in order to reduce the short term revenue burden, but in a way that is prudent given the long term nature of local authority debt and assets. The Council will consider its MRP policy in order to ensure that it is both prudent and affordable. Any proposed changes to the policy, together with associated savings, will be brought forward for approval within the Budget Setting report.

2.3.16 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;
- **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.

2.3.17 The Council is obliged to work towards ensuring that 100% of its pension liabilities within the West Midlands Pension Fund are funded. The current level of funding is at or around 70%. In the light of this the Council's contributions to the pension fund, in particular in relation to the costs of past service, are planned to increase very significantly up to 2016/17 and this increased cost is included within the Council's financial plans. The period from 2017/18 may see further pressure to increase contributions as a result of the forthcoming triennial review. The Council will 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 being sustainable and affordable in relation to the Council's overall financial position.

2.3.18 Local authorities continue to be responsible for setting levels of **Council Tax Support**, but with a 10% reduction in resources. The financial risk therefore remains with local government. A public consultation exercise has just concluded on Council proposals to reduce the level of support and the results of this will be reflected in the Council Tax Support policy due to be approved by Council in January 2016.

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);
- 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;

- 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 will plan for Government grant settlements based on estimates informed by the outcome of the Government's July 2015 Spending Review and the local government sector's interpretations of the impact of this. Significant uncertainty remains about what this will mean in any great detail but it is clear that the Council will need to plan based on a continued downward trajectory of Government resources with a planning assumption of on-going reductions of c10%;
- As a technical assumption, Council Tax increases of just under 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%pa pay awards will be assumed until 2019/20 in line with indicative Government announcements. Subsequent to its initial announcement of the 1% level the Government has indicated that it expects this to be the average rate of increase, with particular pay settlements potentially being either above or below this. This will be kept under close review;
- 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. In addition, the Council's local share of Business Rate growth has been built in equivalent to £1m in 2016/17. Further increases in future years will be subject to review during the Budget Setting process;
- 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 has been reviewed in detail, and this can allow resources to be released. This review has been based on a number of assumptions including: no new borrowing in the next 4 years, with cash needs being met from existing cash balances; capital expenditure being resourced from prudential borrowing consistent with that set out in the capital programme; and a gradual rise in interest rates over the planning period;
- 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. 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 downsizing 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.

- 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.

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 2016/17 Budget.

5. Comments from the Executive Director of Resources

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, some revisions to the base position that have emerged since February and some initial estimates of savings that may derive from the strategies outlined in the report, a revised projected gap will be set out in the forthcoming Pre-Budget Report.

Moving into the 2016/17 Budget Setting process there is still a forecast gap rising to £28m in 2018/19 which is expected to rise in the years beyond that. Coventry faces the challenges and major policy choices faced by many other authorities in recent years. Specifically, the Council will need to decide which areas of service are open to review and which are to be outside of scope for savings. The greater the number of areas that are outside the scope for savings, the greater will be the impact on the remaining services. However, the size of the gap makes it inevitable that areas not previously considered will now need to be reviewed and some services will be delivered differently or quite possibly not at all.

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 MTF5 is closely aligned to the 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. The Council's process for addressing risk is being reviewed currently.

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 continues to use Early Retirement/Voluntary Redundancy opportunities as the key mechanism by which it is able to reduce staffing levels across the Council. It is anticipated that this mechanism will continue to be used 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 proposals within 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 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.

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