Coventry City Council

Public report
Cabinet

Cabinet 19th February 2019
Council 19th February 2019

Name of Cabinet Member:
Cabinet Member for Strategic Finance and Resources – Councillor J Mutton

Director Approving Submission of the report:
Deputy Chief Executive Place

Ward(s) affected:
All

Title:
Budget Report 2019/20

Is this a key decision?
Yes - The report sets the Council's Revenue Budget for 2019/20, the Capital Programme for 2019/20 to 2023/24 and the Council's Capital, Treasury Management and Commercial Investment Strategies.

Executive Summary:
This report follows on from the Pre-Budget Report approved by Cabinet on 27th November 2018 which has since been subject to a period of public consultation. The proposals within this report will now form the basis of the Council's final revenue and capital budget for 2019/20 incorporating the following details:

- Gross budgeted spend of £744m (£17m and 2% higher than 2018/19).
- Net budgeted spend of £232m (£3m lower than 2018/19) funded from Council Tax and Business Rates less a tariff payment of £19.6m due to Government.
- A Council Tax Requirement of £135.2m (£7.9m and 6% higher than 2018/19), reflecting a City Council Tax increase of 2.9% detailed in the separate Council Tax Setting report on today's agenda.
- A number of new expenditure pressures and savings proposals within Council services.
- A Capital Strategy including a Capital Programme of £195.3m including expenditure funded by Prudential Borrowing of £50.3m.
- An updated Treasury Management Strategy.
- In the response to new regulatory requirements and for the first time, a Capital Strategy and a Commercial Investments Strategy.

The financial position in this Budget Report is based on the Final 2019/20 Local Government Finance Settlement and incorporates anticipated reductions in funding over the next 3 years. This position contains significant uncertainty for the period after 2019/20 which will be subject to the combination of a new national Spending Review, a revised allocation model within the Local Government sector and a new national 75% Business Rates retention model. As a result it is impossible to provide a robust financial forecast at this stage. Nevertheless, initial assumptions and existing trends are sufficiently firm to indicate that in all likelihood there will be a substantial gap for the period following 2020/21. The view of the Council's Director of Finance and Corporate Services is that the Council should be planning for such a position.

2019/20 will see the Council continue, along with the other 6 West Midlands councils, to participate in a 100% Business Rates Pilot scheme. This will enable the Councils to retain 99% of Business Rates income including any growth against an historic baseline which would otherwise have been returned to the Government. The financial model and assumptions that support the Pilot have been incorporated within the financial position included in this report.

The Pre-Budget Report was based on an increase in Council Tax of 2.9% and this position has been maintained for the final proposals in this report. This is within the Government's limit of 3%, above which a referendum would need to be held. This proposed increase will be the equivalent of around 70p a week for a typical Coventry household.

The Council's medium term financial position includes the impact of reductions in Government funding that had already been anticipated and savings programmes that have been approved previously. However, after taking into account of a delay in the likely achievement of some savings and the emergence of new expenditure pressures, the Council has needed to address a significant financial gap. In broad terms, the Budget has been balanced by additional Council Tax resources, lower costs in contingency budgets and a range of savings identified within services, many of them relating to additional income. All these proposals are set out in detail in Appendix 1. Where these are different to the proposals that were included in the Pre-Budget Report, this has been indicated within the appendix.

In contrast to recent Budget Reports, the proposals do not provide the Council with a balanced medium term position (i.e. beyond 2019/20). The Council will need to take stock through 2019, both of the revised funding position that will arise from the changes to local government finance this year and of the need for an updated approach to identifying ways to address the expected budgetary gap.

Given the forthcoming national proposals for local government finance to be based on a 75% Business Rates model from 2020/21, the vibrancy and growth of the city is vital to ensure a secure level of Business Rates income. Proposals within the recommended Capital Programme are designed to help achieve this and amount to £195.3m in 2019/20. These continue to represent an ambitious approach to investing in the City and include the near-completion of the Council's new city centre leisure facility, progression of the extensive UK Central & Connectivity, Coventry Station Master Plan, UKBIC, and Whitley South Infrastructure projects. Over the next 5 years the Capital Programme is estimated to be £722m as part of the largest recent investment programme delivered by and through the City Council. The Council is aware that it has not delivered significant amounts of its budgeted programmes in recent years and it will seek to ensure that momentum is maintained on those elements of the schemes over which it is able to control.

The annual Treasury Management Strategy, incorporating the Minimum Revenue Provision policy, and also the Commercial Investment Strategy are set out. These cover the management of the Council's treasury and wider commercial investments, cash balances and borrowing requirements. These strategies and other relevant sections of this report reflect the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management

Code and Prudential Code for Capital Finance, as well as statutory guidance on Minimum Revenue Provision (MRP) and Investments.

Recommendations:

That Cabinet recommend to Council the approval of recommendations (1) to (6).

Council is recommended to:

(1) Approve the spending and savings proposals in **Appendix 1**.

(2) Approve the total 2019/20 revenue budget of **£744m** in **Table 1** and **Appendix 3,** established in line with a 2.9% City Council Tax increase and the Council Tax Requirement recommended in the Council Tax Setting Report considered on today's agenda.

(3) Note the Director of Finance and Corporate Services' comments confirming the adequacy of reserves and robustness of the budget in **Section 5.1.2 and 5.1.3.**

(4) Approve the Capital Strategy incorporating the Capital Programme of £195.3m for 2019/20 and the future years' commitments arising from this programme of £526.3m between 2020/21 to 2023/24 detailed in **Section 2.3** and **Appendix 4**.

(5) Approve the proposed Treasury Management Strategy for 2019/20 and Minimum Revenue Provision Statement in **Section 2.4,** the Treasury Investment Strategy and Policy in **Appendix 5** and the Prudential Indicators and limits described in **Section 2.4.9** and detailed in **Appendix 7a**.

(6) Approve the proposed Commercial Investment Strategy for 2019/20 in **Section 2.5** and **Appendidx 6** and the Commercial Investment Indicators detailed in **Appendix 7b**.

List of Appendices included:

Appendix Number	Title
1	Budget Financial Proposals – Changes to Base Position
2	Consultation Responses
3	Summary Revenue Budget
4	Capital Programme 2019/20 to 2023/24
5	Treasury Investment Strategy and Policy
6	Commercial Investment Strategy
7a&b	Prudential and Investment Indicators

Other useful background papers:
None

Has it been or will it be considered by Scrutiny?
No

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 – February 19th 2019

Budget Report 2019/20

1. Context (or background)

1.1 This report seeks approval for the 2019/20 Revenue Budget and corresponding Council Tax rise, Capital Programme and Strategy, Treasury Management Strategy, Commercial Investment Strategy, together with the associated investment and prudential indicators. The report includes detail of the resources retained as part of the 2019/20 Government funding allocation and forecasts of the Council's medium term revenue financial position. This will represent the fourth year of the Government's four year funding position for local government which began in 2016/17.

1.2 The revenue budget proposals in this report follow on from the Pre-Budget Report approved by Cabinet on 27th November 2018. They have been established in line with the Council's current Medium Term Financial Strategy and Council Plan,

1.3 The Government announced the Final Local Government Finance Settlement for 2019/20 on 29th January 2019. This re-affirmed a continuation of public sector spending reductions for 2019/20. No firm picture has been given for the period starting in 2020/21 although indications are that further reductions should be expected. The uncertainty that surrounds this presently should be addressed as details emerge of the local government funding arrangements through this year.

1.4 Resources available to Coventry through the Local Government Finance Settlement had fallen by c£113m in the period between 2010 and 2018/19 on a like for like basis. The latest position shows a further reduction of c£7m for 2019/20. At the conclusion of last year's Budget process the Council was projecting a balanced budget for 2019/20. However through the current Budget exercise it emerged that some existing savings plans would not be delivered in 2019/20 to the original timescale whilst new budget pressures have also arisen. This resulted in a budget shortfall of £10m in 2019/20 rising to £31m by 2022/23. These developments and the technical savings proposals which alleviate the budgetary gap in part were incorporated within the Pre-Budget Report approved by Cabinet in November.

1.5 In 2018/19 councils nationally had the flexibility to increase Council Tax by up to 3% without holding a local referendum on the matter. There was also additional flexibility to increase Council Tax by a further 3% in recognition of the increasing pressure on Adult Social Care (ASC) services but up to a maximum of 6% over a three year period. Coventry has exercised all of this ASC flexibility over the past two years (with two rises of 3%) so has no further capacity remains for 2019/20. The Pre-Budget Report was approved on the basis of a Council Tax rise of 2.9% - within the Government's 3% limit and the budget being proposed in this report maintains this position.

1.6 Coventry has entered a period of large and sustained infrastructure and other capital investment. The next phases of this are set out in the Capital Programme in section 2.3 and Appendix 4. A large part of the Programme reflects the Council's success in attracting external grant funding into the city, working with the West Midlands Combined Authority to secure resources as part of the Devolution Deal and developing local self-financing projects within the city. It is anticipated that Coventry's UK City of Culture 2021 status will attract further investment into the city and it is also the case that the award has provided an imperative to bring forward some existing plans. It remains important to recognise that whilst this represents an exciting period for the city, it also poses a significant challenge in managing a number of complex and overlapping projects within a relatively compact city and tight timescale. In terms of the wider Capital Programme it is worth emphasising that the vast majority of the funding to deliver these schemes comes from sources that can only be used in one-off capital schemes and therefore is not available to support the revenue budget.

1.7 The overall Council Capital Programme is estimated to be c£722m over the next 5 years which will help to spearhead growth, economic development and job creation in the city and greater self-sufficiency for the City Council through the generation of higher tax revenues.

1.8 Whilst local authorities have been required to have a treasury management strategy, recent statutory government guidance extends these requirements to other commercial investments, including service loans, shares and investment properties. The guidance seeks to ensure that authorities have strong commercial risk management arrangements and that such investments are proportionate, relative to the size and financial capacity of the authority.

1.9 Revenue Resources

1.9.1 The Council's total revenue expenditure is funded from a combination of resources as set out in the table below:

Table 1: Funding of Revenue Budget

2018/19 £000s		2019/20 £000s	(Increase)/ Decrease £000s	Increase/ (Decrease)
(127,253)	A: Council Tax Requirement	(135,192)	(7,939)	6%
(116,992)	B: Business Rates Income	(116,276)	716	(1%)
9,455	C: Tariff	19,618	10,163	107%
(401,964)	D: Specific Grants (see section 3.4)	(409,800)	(7,836)	2%
(90,276)	E: All Other Income	(102,792)	(12,516)	14%
(234,790)	Funding of Net Budget (A + B + C)	(231,850)	2,940	(1%)
(727,030)	Funding of Gross Budget (A + B + C + D + E)**	(744,442)	(17,412)	2%

Line A above reflects the city Council Tax increase of 2.9%, plus growth in the city's tax-base and changes to the assumed level of discounts and allowances. In addition to other Fees and Charges, line E includes Council Tax and Business Rates Collection Fund surpluses/deficits, dividend payments and contributions from reserves.

1.9.2 Due to impending changes in the Local Government Finance model and the Council's participation in the West Midlands Business Rates Pilot it is becoming more difficult to provide robust estimates of future resources. The Council will suffer a loss of Government resources of £7m in 2019/20 and current financial modelling assumes a similar trajectory of resource loss in 2020/21 and 2021/22. The reality is that there is no reliable estimate for the years beyond 2019/20 which could be subject to significant fluctuation depending on the overall allocation of resources to Local Government and how this is apportioned to individual local authorities within the model.

1.9.3 In addition, due to transfers in responsibility and other changes in the local government finance model it is difficult to provide precise and robust analysis of historical movements over time. The Government has used a measure termed Settlement Funding Assessment (SFA) as a proxy for the share of Revenue Support Grant and national Business Rates that the local authority is due. On this measure, the indicative position is that the 2010/11 equivalent SFA provided £1,642 of funding for every household in the city. Since then, the number of Coventry households has increased as overall resources have been cut and the equivalent funding per household figure for 2019/20 has fallen by more than £950 over the period to under £700.

1.9.4 Notwithstanding the resource cuts for Coventry, the Council's participation in the West Midlands Business Rates Pilot has enabled it to reduce the impact of this. 99% of Business Rates income is being retained locally for the duration of the Pilot, including an element of growth from between the years 2013/14 and 2015/16 against a baseline which would otherwise have been returned to the Government. Figures including the 99% Business Rates position are reflected in Table 1 above. The Council's participation in the Pilot is on a no detriment basis meaning that the Council will not receive a lower level of resources than it would have received had it not participated in the Pilot.

1.9.5 A combination of lower resource settlements from Government and the Business Rates Pilot referenced above have marked a departure for the Council. For the first time in 2017/18 the Council needed to make a tariff payment to Government in contrast to the top-up payment that it used to receive from Government under previous funding arrangements. This tariff payment increased to £9.5m in 2018/19 and now stands at £19.6m for 2019/20. This indicates that the Council is judged by Government to be earning a greater level of Council Tax and retained Business Rates than it requires for its assessed spending needs. This shift reflects a combination of cuts to Government funding for local government and to a limited degree, indications that the Council is more self-reliant (in relative terms compared to other areas) and able to fund its own spending requirements. It is important to treat this assessment with caution given that the city continues to have some high levels of need and pockets of deprivation. Nevertheless, it emphasises the importance for the Council of generating greater resilience and prosperity in the local economy in order for the city to be able to support itself under the Government's intention for local government to become more self-sufficient.

1.9.6 The Government has announced previously the establishment of a national 75% Business Rates retention model to operate from 2020/21 which extends the current 50% model. Further details are awaited on the implications for authorities in 100% Pilots such as Coventry.

1.9.7 In overall terms specific revenue grant funding has increased between 2018/19 and 2019/20 from £402m to £410m in particular due to increases in Better Care Fund and Business Rates related grant resources. The total level of funding received to fund city schools (including the Dedicated Schools Grant and Pupil Premium Grant) is expected to be £184m, compared with £189m in 2018/19. Housing Benefit Subsidy payments have been estimated at £114m, whilst other significant grants include Public Health (£21m), adult social care funding (£33m*) including the Improved Better Care Fund, New Homes Bonus (£5m) and assumed Adult Education funding (£6m).

*An additional Winter Pressures grant has been announced for 2019/20 amounting to £1.551m. The Grant conditions require this to be pooled into the Better Care Fund via the Improved Better Care Fund.

1.9.8 The Council's capital and revenue programmes, including treasury and commercial activities are managed in parallel through consolidated planning, in year monitoring and year end processes, within the context of the Medium Term Financial Strategy. The Constitution, including the Financial Procedure Rules, set out thresholds that determine the level at which financial approval is required by officers or the appropriate member forum, up to Council. Central to the approach is the the principal that recommendations are supported by appropriate business cases.

2. Options considered and recommended proposal

2.1 Section Outline

2.1.1 This section details the specific proposals recommended for approval. Section 2.2 below outlines the changes that have occurred to the financial proposals set out as part of the Pre-Budget Report in November. The full list of final proposals is provided in **Appendix 1.** Approval is being sought for these and the overall budget and Council Tax Requirement in **Appendix 3**. These are based on a City Council Tax rise of 2.9%.

2.1.2 The report seeks approval for a 2019/20 Capital Programme of £195.3m compared with the initial 2018/19 programme of £262m. The Programme is considered in detail in **Section 2.3** and **Appendix 4**.

2.1.3 The report is also required formally to seek Council approval for the Treasury Management Strategy (**Section 2.4),** the Treasury Investment Strategy and Policy **(Appendix 5),** the Commercial Investment Strategy **(Appendix 6) and** the Prudential and Investment Indicators (**Section 2.4.9** and **Appendix 7**).

2.2 Revenue Budget

2.2.1 The budget includes the saving and expenditure proposals included within the Pre-Budget Report approved by Cabinet on 27th November 2018 as a basis for Pre-Budget consultation. A line by line impact of how these proposals affect the base budget is given in **Appendix 1** with an indication of where there have been changes to the figures included within the Pre-Budget Report. The changes since the Pre-Budget Report are shown in the table below. These changes enable the Council to deliver a balanced budget for 2019/20 but indicate that a financial gap will arise based on known current conditions fo subsequent years.

Table 2: Changes in Proposals Compared with the Pre-Budget Report Position

	Appx 1 Line Ref	2019/20 £m	2020/21 £m	2021/22 £m
Pre-Budget Report Position		**0.6**	**16.75**	**23.9**
Our Future Workforce (Workforce Reform)	2	1.9	0.0	0.0
2019/20 Adult & Children's Social Care Funding	2a	(2.65)	0.0	0.0
2019/20 Adult Social Care Winter Pressures Funding	2b	(1.55)	0.0	0.0
New Homes Bonus	2c	(1.35)	0.0	0.0
Housing & Homelessness	3	1.0	0.0	0.0
Loss of Coventry & Warwickshire Business Rates Pool Surplus	4	(0.4)	0.0	0.0
2019/20 Adult & Children's Social Care	7a	1.15	0.0	0.0
2019/20 Adult Social Care Winter Pressures	7b	1.55	0.0	0.0
Community Support Grants	7c	0.15	0.15	0.15
Waste Disposal	7d	0.8	0.8	0.8
Godiva Festival	7e	0.4	0.0	0.0
Inflation Contingency	10	0.4	0.0	0.0
2018/19 Coventry & Warwickshire Business Rates Pool Surplus	14	0.3	0.2	0.1
Coventry and Solihull Waste Disposal Company Dividends	16a	(2.3)	(1.3)	(1.3)
Final Budget Position		**0.0**	**16.6**	**23.65**

2.3 Capital Strategy and Expenditure Programme

2.3.1 Under the Prudential Code authorities are required to produce a Capital Strategy that covers a broad range of capital related issues including: capital expenditure and resourcing; borrowing and liabilities, and their repayment through Minimum Revenue Provision; loan commitments and guarantees; treasury and commercial investments. These areas are covered either in this section or elsewhere in this report where appropriate (e.g. the Treasury Management Strategy or Commercial Investment Strategy).

2.3.2 In **Appendix 4** there are proposals for a Capital Programme of £195.3m and contains a number of strategically significant schemes. This compares with the current projected 2018/19 programme of £174m and continues a period of high sustained programme spend in comparative terms. A full 5-year programme is detailed in **Appendix 4** with the main 2019/20 planned expenditure as follows:

- £68.5m of investment in the City's Highways and Public Realm infrastructure. This includes infrastructure to support the research and development campus located at Whitley South, UK Central and Connectivity programmes as part of the Strategic Transport Investment Programme and provision for a new multi storey car park at Salt Lane.
- £39.2m for the next phases of the grant funded National Battery Manufacturing Development facility.
- £10.1m investment in Sports and Leisure facilities, including the final build phase for the Destination Leisure Facility and completion of the 50m pool at the Alan Higgs Centre.
- A £8.5m programme in 2019/20 within the Education and Skills Portfolio, seeing the start of the Secondary School Strategy.
- £18.7m of Growth Deal and European funding to support economic growth and Small & Medium Size Enterprises within the sub-region.
- £22.3m for the start of the delivery phase of the Coventry Station Masterplan and the Nuckle (1.2) schemes to deliver transformational improvements to Coventry Railway Station, improve the railway links between Nuneaton and Coventry and provide a new platform at the railway station.
- £7.3m for the planning and preparatory stages of City Centre South and Friargate regeneration projects - the redevelopment of a major part of the City Centre and a second Friargate building funded by the WMCA.
- Investment within the Commercial Investment Strategy over the course of the Capital Programme in terms of £3.7m of loans to external organisations.

2.3.3 The 2019/20 Programme requires £50.3m of funding from Prudential Borrowing, £28.5m of which relates to previous approvals for the City Centre Destination Leisure Facility, Car Parks and Whitley Depot redevelopment. A further £21.8m relates to non-scheme specific borrowing resulting from spending decisions made in previous years. Over the course of the future 5 year programme set out, the Council is set to incur £131m of borrowing. This borrowing has been the subject of previous decisions and will, overwhelmingly, be supported by business cases that have identified income streams to cover the capital financing costs, all of which is factored into the Council's medium term financial plans. Nevertheless, in comparison to the Council's existing level of borrowing this is a significant shift in the Council's external indebtedness.

2.3.4 In addition to the opportunities to receive additional external funding, the Director of Finance and Corporate Services will continue to explore options to fund the programme in the most appropriate way depending on the balance of resources, including using capital receipts to reduce the overall need to borrow. In reality, any displacement of borrowing from this source is likely to be at a comparatively low level based on the current level of available receipts. In addition to the Prudential Borrowing referred to above, the other main source of funding for the 2019/20 Capital Programme is £135m of Capital grants as follows.

Table 3: Capital Grant Funding

Grant	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £m
Disabled Facilities Grant	4.6	3.4	3.4	3.4	0.0	**14.8**
Department for Transport	18.7	8.4	5.0	10.0	12.5	**54.6**
Education Funding Agency	6.9	17.7	3.2	2.4	2.4	**32.6**
ERDF	1.2	1.7	0.9	0.0	0.0	**3.8**
Growth Deal	18.7	14.3	0.0	0.0	0.0	**33.0**
Heritage Lottery Fund	0.8	0.3	0.1	0.0	0.0	**1.2**
Innovate UK	39.2	10.0	0.0	0.0	0.0	**49.2**
West Midlands Combined Authority	24.7	117.5	77.4	33.8	27.3	**280.7**
Sports England	0.4	0.0	0.0	0.0	0.0	**0.4**
Ministry of Housing, Communities & Local Government	3.1	9.7	0.0	17.5	17.6	**47.9**
Private Sector Contribution for Whitley South	14.8	11.0	0.7	0.0	0.0	**26.5**
All Other Grants & Contributions	2.1	1.1	0.7	1.0	6.6	**11.5**
TOTAL PROGRAMME	**135.2**	**195.1**	**91.4**	**68.1**	**66.4**	**556.1**

2.3.5 The programme is based on an approach to the capitalisation of expenditure set out within the acounting policies section of the Council's Statement of Accounts. This approach is based on proper accounting practices, amended as required by local government capital finance regulations. In broad terms assets are treated as capital where they have a useful life of longer than one year and are not intended for sale during the normal course of business.

2.3.6 **Forecast Capital Expenditure and Resourcing Programme**
The Programme included has been evaluated to identify a likely best profile of spend based on current knowledge of individual projects. In part this is to maximise the amount of programmed expenditure to meet expectations of grant funding bodies but there are also local expectations to inject momentum into the programme to ensure sufficient progress is made ahead of other developments, including the UK City of Culture in 2021. In overall terms, the Programme is not only one of the largest in recent years but also involves a number of complex and overlapping projects within a relatively compact city. Delivery of even a sizeable proportion of the programme will represent a significant challenge for the Council and section 5.1.4 recognises the risks inherent in this. Given the innovation involved in some of the projects, the milestones that need to be achieved to satisfy grant funded bodies and the potential for delay given the interdependency of some schemes, it should be recognised that the profile for some schemes could shift significantly between years, with the potential for large amounts of expenditure being rescheduled into later periods or, less likely, to be accelerated into 2019/20 for individual projects.

A summary of the proposed programme including existing commitments and funding sources is outlined below. This includes expenditure rescheduled into 2019/20 as a result of the 2018/19 budgetary control process. Full details of the proposed programme are included in **Appendix 4.**

Table 4: 2019/20 – 2022/23 Capital Programme (Expenditure & Funding)

Expenditure	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £'000
Portfolio:						
Strategic Finance and Resources	2,650	1,400	1,000	900	900	**6,850**
Education and Skills	8,711	25,312	3,889	3,114	3,014	**44,040**
Jobs and Regeneration	137,416	171,273	84,721	108,655	62,931	**564,996**
City Services	28,747	23,864	7,226	6,762	5,904	**72,503**
Public Health and Sport	15,092	3,780	3,657	3,498	230	**26,257**
Housing and Communities	1,954	355	0	0	0	**2,309**
Policing and Equalities	750	4,000	0	0	0	**4,750**
TOTAL PROGRAMME	**195,320**	**229,984**	**100,493**	**122,929**	**72,979**	**721,705**

Funding	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2022/23 £'000	Total £'000
Management of Capital Reserve	2,670	700	304	200	200	**4,074**
Capital Unringfenced Receipts	2,850	5,900	1,400	250	0	**10,400**
Capital Ringfenced Receipts	640	230	0	0	0	**870**
Prudential Borrowing	50,265	24,671	3,337	50,640	2,507	**131,420**
Grant & Contributions	135,177	195,069	91,417	68,074	66,373	**556,110**
Capital expenditure (from) revenue account	2,366	2,716	3,380	3,269	3,269	**15,000**
Section 106	1,352	698	655	496	630	**3,831**
TOTAL RESOURCES	**195,320**	**229,984**	**100,493**	**122,929**	**72,979**	**721,705**

2.3.7 Leasing

The City Council does not plan to acquire plant and equipment via operating leases. However, it may do so where it provides value for money compared with other forms of funding.

2.3.8 Generation of Capital Receipts

In order to generate resources to fund new capital investment the Council is able to dispose of property assets and will seek to do so in particular where these yield low or no rental income. As capital receipts, the proceeds from such disposals can only be used to fund new capital expenditure or repay debt, but cannot ordinarily be used to fund revenue expenditure. The following table sets out the Council's forecast capital receipts flows although these are subject to significant volatility given the nature of activity in this area.

Table 5: Forecast Capital Receipts

	2019/20 £000s	2020/21 £000s	2021/22 £000s	2022/23 £000s	£2023/24 £000s
Forecast Balance Brought Forward	16,601	12,166	6,686	4,886	4,236
Forecast New Receipts	4,695	3,550	0	0	0
Total Receipts	**21,296**	**15,716**	**6,686**	**4,886**	**4,236**
Committments	(9,130)	(9,030)	(1,800)	(650)	(400)
Receipts Carried Forward	12,166	6,686	4,886	4,236	3,836

2.3.9 Guarantees, Loan Commitments and Other Liabilities

The Council currently provides a small number of guarantees to third parties, for example in respect of long term pension liabilities. One benefit of this type of arrangement is that a smaller pension contribution can be secured for the organisations in question, as a consequence of the Council's longer term credit strength. Such guarantees can be historic, arising through the Council's past relationships with those organisations. In providing guarantees the Council is accepting risk, and each is reviewed on a case by case basis, taking into account the overall level of risk exposure.

Where the Council has commited to make a loan, but has yet to make the advance, for example in making a forward treasury investment or in agreeing a loan facility to be advanced over time, such loan commitments are taken into account in managing the Council's overall investment exposure.

The Council's long term liabilities comprise two main elements: the long term borrowing set out in the Treasury Management Strategy (section 2.4) and the pension fund deficit of £542m (31st March 2018). The pension deficit crystalises over time as payments to members become due. However, the net position on the pension fund tends to fluctuate year on year, being dependent on a number of variables, including life expectancy levels, inflation and investment returns. Contributions are set in order to manage the deficit over the longer term, reflecting the nature of the liability.

2.3.10 Capital Financing Requirement

Taking into account the planned programme set out in the Table 4 above, the estimated Capital Financing Requirement (CFR), representing the underlying need to borrow for capital investment purposes, is detailed in the following table below:

Table 6 : 2019/20 Capital Financing Requirement (including PFI & Finance Leases)

Forecast CFR Movements	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Opening CFR - 1st April	**441.9**	**479.2**	**487.9**	**472.6**	**503.8**
Capital Spend met form borrowing	50.3	24.7	3.3	50.6	2.5
Minimum Revenue Provision	-11.5	-14.5	-16.9	-17.7	-19.4
Other	-1.5	-1.5	-1.7	-1.7	-2.0
Closing CFR - 31st March	**479.2**	**487.9**	**472.6**	**503.8**	**484.9**

Over the 5 years from 1st April 2019, it is forecast that the CFR will increase by c£43m or approximately 10% reflecting the the level of the borrowing required to meet the capital programme, less amounts set aside to repay debt as MRP.

2.3.11 Revenue Budget Implications

The revenue cost of the proposed Capital Programme, in the form of net interest on debt, plus the amount set aside as MRP to repay debt is the total general fund capital financing cost. It is forecast that these financing costs will increase from £29.6m in 2018/19 to £36.8m in 2021/22, reflecting the increased capital expenditure to be resourced by borrowing. Due to the long term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the coming years will extend for up to 50 years, in line with the Council's Minimum Revenue Provision (MRP) policy set out in Section 2.4.6.

2.3.12 The Section 151 Officer considers that the capital strategy, including the capital expenditure programme and resourcing as set out in this report, is prudent, affordable and sustainable, and that the level of borrowing and commercial investment income are proportionate to the resources available to the Council.

2.4 Treasury Management Strategy

Treasury management entails the management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. Local authorities are required to maintain an overarching annual Treasury Management Strategy which is the subject of this section of the report.

2.4.1 In addition, authorities are required to set out:

- An Investment Strategy and Policy detailing out how investment risk is managed (**Appendix 5**);
- A suite of prudential indicators for treasury and capital programme management (**Appendix 7**);
- A Minimum Revenue Provision (MRP) statement detailing the way it calculates the prudent provision for the repayment of borrowing (**Section 2.4.5**).

2.4.2 The detailed objectives that underpin the Treasury Management Strategy are:

Borrowing, to:

- Maintain adequate liquidity so that cash requirements are met;
- Minimise the cost of debt whilst maintaining long term certainty in interest rate exposure;
- Manage the total debt maturity profile, having no one future year with a disproportionate level of debt repayments;
- Undertake the restructuring of debt, in order to minimise the costs through actively reviewing opportunities for rescheduling.

Investment, to:

- Maintain the capital security of sums invested,
- Maintain adequate liquidity;
- Maximise the revenue benefit by retaining external investments, repaying existing loans and avoiding new borrowing as appropriate given prevailing and forecast interest rates.

The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk and the successful identification and control of risk are integral to the treasury activities and include the following: credit risk; liquidity risk; market or interest rate risk; refinancing risk and legal or regulatory risk

2.4.3 Interest Rate Forecast
Following the increase in the Bank Rate to 0.75% in August 2018, the Council's treasury management adviser Arlingclose is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The Bank of England has emphasized that any future increases in the bank rate will be slow and steady.

2.4.4 Borrowing
Based on current estimated levels of spend the expected long term debt position of the authority at 31st March 2019 is as follows:

Table 7: Estimated Long Term Borrowing at 31st March 2019

Type of Debt	Total £m
PWLB	190.5
Money Market Loans	38.0
Stock Issue	12.0
Transferred Debt (other authorities)	11.7
PFI, Finance Lease & Other	65.1
Total Long Term Liabilities	**317.3**

The main funding sources currently used by Coventry are:

- The Public Works Loans Board (PWLB) or any successor body - this is, in effect, the Government. Loans may be obtained at variable or fixed rates of interest.
- Money Market Loans - these are loans obtained from financial institutions and include LOBO (lender's option, borrower's option) loans typically with an initial fixed rate for 3-4 years, then variable thereafter. Should the lender exercise the option and seek to increase the rate beyond a certain level the borrower can choose to repay the loan, refinancing it at that point in time. This is, in effect, a call option for the lending bank. Coventry has £38m of such loans and in the event of a "call" one approach that would be considered would be to repay the loan, refinancing it from another source, such as the PWLB;
- Stock Issue (Bond issue) – this is the authority's £12m stock issue;
- UK Local Authorities and any other UK public sector body – traditionally inter local authority borrowing has been used to manage shorter term cashflow demands, but there is now greater potential for longer term arrangements;
- PFI & Finance Leases - under accounting rules, liabilities to make payments under PFI schemes and finance leases are included within the City Council's balance sheet.

In addition, the City Council will consider other sources available to local authorities and may invest with these if appropriate: capital bond market investors; UK pension funds (excluding the West Midlands Pension Fund); vehicles set up by local authorities to enable joint local authority bond issues such as the UK Municipal Bonds Agency plc; forward starting loans (where the interest rate is fixed in advance, but the cash is received in later years), other institutions authorised by the Prudential Regulation Authority or approved for investments within the Council Investment Strategy and Policy.

Given the Capital Programme and the increase in the underlying need to borrow represented by the Capital Financing Requirement each set out in this report, the Council may need to borrow in the coming year. The issues that the City Council will take into account in its approach to borrowing will include:

- Although local authorities have scope to borrow in advance of need, essentially borrowing on the basis of future planned capital spend, it is proposed that the City Council's current practice of not borrowing in advance of need continues unless circumstances change;
- Non-Capital Programme factors including the level of short term cashflow balances, the use of reserve balances and the maturity of long term debt such as PWLB and, potentially, LOBO market loans;
- The impact of short term rates, including base rate, being lower than long term rates. This means that where the proceeds of long term borrowing are temporarily held as investment balances, there is a short term “cost of carry” reflecting the difference in short to long term rates. This is an immediate disincentive to undertake long term borrowing, even when long term rates are historically low;
- The potential to reschedule debt through redeeming existing borrowing early and replacing it with borrowing at lower interest rates. This will only be done if revenue benefits justify it, taking into account early repayment costs. However, the lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has tended to reduce the opportunities for local authorities to benefit through debt restructuring.

Taking account of interest rates, the level of investment balances, the objectives underpinning the Treasury Management Strategy and the forecast borrowing requirement for 2019/20 and future years, the Section 151 Officer will undertake the most appropriate form of borrowing depending on prevailing interest rates at the time.

2.4.5 **Minimum Revenue Provision** (MRP) - Local authorities are required to make prudent provision for the repayment of long term capital programme borrowing through a revenue charge (MRP). The aim of prudent provision is to ensure that the revenue charge broadly reflects the period over which benefit is derived from the capital spend e.g. broadly the life of an asset purchased or built.

The Local Authorities (Capital Finance and Accounting) Regulations 2003 require the approval of an MRP Statement setting out the authority's approach. It is proposed that the policy continues:-

- For capital expenditure incurred before 1st April 2008, the Council will set MRP as a fixed charge of 2% pa of the relevant element of the Capital Financing Requirement, adjusted for the Adjustment A. Under the existing policy approved by Council on 23rd February 2016, the impact of this change in methodology is to be calculated with effect from 2007/08. In line with the transitional arrangements set out in the Statutory Guidance on Minimum Revenue Provision any amounts calculated will be treated as overpayments of MRP and may therefore be incorporated into future calculations of prudent provision. In total, the amount to be treated as overpayment of MRP is £35,724k to 2015/16.

- From 1st April 2008 for all capital expenditure met from unsupported or prudential borrowing, MRP will be based on the estimated asset life of the assets, using either the annuity or equal instalments calculation method or a depreciation calculation;

- MRP for leases brought onto the balance sheet under accounting rules will match the annual principal repayment for the associated deferred liability;

- Voluntary revenue provision will not be made and capital receipts not set aside to repay debt, unless approved in line with the financial procedure rules. Amounts voluntarily set aside as capital receipts and revenue provision in previous years will be treated as overpayments of MRP in line with the Statutory Guidance on Minimum Revenue Provision. In total, the amounts to be treated as overpayments are : £7,847k (voluntary revenue provision to 2015/16) and £28,948k (voluntary capital receipts set aside to 2015/16).

2.4.6 **Investments** ~ The City Council holds investments, representing income received in advance of expenditure plus balances and reserves held. It is expected that the level of investments will be maintained in the forthcoming year.

In line with statutory guidance, the order of objectives in investing the Council's funds remains:

- security of capital;
- liquidity or accessibility of the council's investments;
- yield or return.

The main investments used by the City Council are:

- Call accounts and deposits with banks, building societies, local authorities, the government and registered providers, largely for fixed durations and rates of interest. During 2018/19 the amount held in these investments has ranged between £10m and £50m;
- Pooled funds such as Collective Investment Schemes (CIS) and Money Market Funds (MMF), which enable local authorities and other investors to diversify their investments. During 2018/19 the amount held in these investments has ranged between £35m and £85m.
- Corporate Bonds, which are investments issued by companies other than banks and registered providers. These allow local authorities to reduce their exposure to bail in risk. During 2018/19 the amount held in these investments has ranged between £0m and £10m

The use of call accounts and Money Market Funds helps ensure the liquidity of funds available to the City Council.

Credit risk remains central to local authority investment management. Whilst the risk of banking failures has reduced, it has not dissipated altogether. Unqualified support by governments is now unlikely, in part as the result of regulatory changes. This means that in the event of a banking failure, it is almost certain that unsecured creditors and corporate investors would suffer some losses. This change in the nature of investment risk reflects a move away from "bail out" by government to "bail in" by corporate investors. Recent changes in legislation means "bail in" has an even greater effect on the authority as Local Authority unsecured investments are one of the first investment classes subject to "bail in". These trends increase the importance of the diversification of investments as a way of mitigating the potential impact of "bail in" risk.

Given the increasing risk and continued low returns from short term unsecured bank investments, the Authority aims to keep diversifying into more secure asset classes.

The Council's proposed Investment Strategy and Policy (**Appendix 5**) deals with the management of counterparty or "credit risk" by determining how City Council lending or depositing limits are set. Although credit ratings are key components in the management of credit risk, in line with best practice, other sources of information are used**.** In this respect the counterparty advice that the City Council gets from Arlingclose, the Council's Treasury Management advisors, is significant.

Given the need to ensure an appropriate level of diversification across counterparties and the threat of "bail in" risk it is proposed that:

a) the maximum limit for unsecured investments with individual counterparties is increased from £6m to £10m. Similarly, for secured investments which are not subject to "bail in", the maximum limit will be increased from £12m to £20m. These limits were established through advice from the Council's Treasury advisors using an estimate of the Council's maximum investment balance for 2019/20, including investments temporarily used to meet cashflow needs (total £200m). Unsecured counterparties have a limit of 5% of this total & secured counterparties have a limit of 10% of this total;

b) Counterparties will only be used if they have a credit rating of A- or better and are recommended as a suitable counterparty by the Council's treasury advisors.

c) Non-credit rated building societies and challenger banks are included on the counterparty list as an unsecured bank deposit with no credit rating with a £1m investment limit. An unrated building society or challenger bank will only be used where independent credit analysis by the City Council's advisors shows them to be suitably creditworthy. In addition, the regulatory framework governing building societies and insolvency regime provides comfort;

d) Corporate bonds are included on the counterparty list with an increased £10m investment limit. A corporate bond is an investment issued by companies other than banks and registered providers. These investments are not subject to bail in, but are exposed to the risk of the company going insolvent. As a result, corporate bonds will only be used when the company has a credit rating of BBB+ or better with any investments in companies rated below A- being classified as non-specified investments, subject to a limit of £10m;

e) Category or Group investment limits are set to manage the impact of systemic exposure, including for example to building societies as a sector and groups of separate legal entities regulated in the same sovereign state;

f) Registered providers are included on the counterparty list with an increased £10m investment limit. These are loans and bonds issued by Registered Providers of Social Housing, formally known as Housing Associations. As providers of public services, these bodies retain a high likelihood of receiving government support if needed;

g) The minimum sovereign rating for countries, other than the UK, in whom counterparties are located is A-, with any investments in countries with a rating below AA+ being classified as non-specified investments, subject to a total limit of £10m.

Separately, the City Council holds investments or provides loans for non treasury purposes, within the context of the Commercial Investment Strategy (Section 2.5 and Appendix 6).

2.4.7 **Treasury Management Advisors** - The authority employs consultants, currently Arlingclose, to provide treasury management advice. A key element of this is the provision of advice on credit risk and the supply of information on credit ratings from the 3 rating agencies, referred to above. Regular review meetings with the advisors provide a vehicle through which quality is managed. In addition, within the City Council, senior managers within the Place Directorate meet on a periodic basis to review treasury issues, including the use of advisors.

2.4.8 **Treasury Management Staff Training** - The authority's process of performance management, of which Competency Based Appraisals are central, addresses the training requirements of individuals. Staff with involvement in treasury issues attend events, including training courses, seminars and networking sessions focused on treasury management as appropriate.

2.4.9 **The Prudential Code** - The current capital finance framework rests on the principle that local authorities can borrow whatever sums they see fit to support their capital programmes, as long as they are affordable in revenue terms. The framework requires that authorities set and monitor against a number of Prudential Indicators relating to capital, treasury management and revenue issues. The indicators are explained below:

Revenue Related Prudential Indicators

Within **Appendix 7a** indicator 1 highlights the revenue impact of the proposed capital programme. This shows that the revenue costs of financing the Council's capital expenditure as a proportion of it's income from Council Tax and government grant is forecast to increase from 12.63% in 2018/19 to 16.39% in 2021/22. This increase reflects the increased levels of prudential borrowing funded spend within the proposed capital programme.

Capital and Treasury Management Related Prudential Indicators

These indicators, set out in **Appendix 7a**, include:

- Authorised Limit (Indicator 5) - This statutory limit reflects the level of borrowing which could be afforded in the short term, but is not sustainable. It is the forecast maximum borrowing need with some headroom for unexpected movements.
- Operational Boundary (Indicator 6) - This is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the authorised limit is not breached.
- Gross Debt less than "Year 3" Capital Financing Requirement (Indicator 2) - The Council needs to be certain that gross external borrowing does not, except in the short term, exceed the total of the Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional capital financing requirement for 2019/20 and the next two financial years. The CFR is defined as the Council's underlying need to borrow, after taking into account other resources available to fund the Capital Programme. This revised indicator is designed to ensure that over the medium term, gross borrowing will only be for a capital purpose.
- Interest Rate Exposures, Debt Maturity Structure and Investments Longer than 364 Days (Indicators 9, 10 & 11) - The purpose of these prudential indicators is to contain the activity of the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decisions impacting negatively on the Council's overall financial position. Indicator 10, Maturity Structure of Borrowing, includes a limit of 40% of total debt that can mature in less than 12 months. This takes into account the potential need to take out short term borrowing to meet day

to day cashflow requirements, as well as the potential for LOBO market loans to be "called" for repayment.

- Other indicators highlight Planned Capital Spend (Indicator 4), Actual Debt at 31st March 2018 (Indicator 7) and the adoption of the Treasury Management Code (Indicator 8).

All these prudential limits need to be approved by full Council, but can be revised by Council during the financial year. Should it prove necessary to amend these limits, a further report will be brought to Cabinet, requesting the approval of full Council for the changes required.

2.5 Commercial Investment Strategy

2.5.1 The proposed Commercial Investment strategy is set out in Appendix 6 and the associated Commercial Investment Indicators in Appendix 7b. In summary, the key issues addressed in the strategy, which is designed to ensure strong risk management arrangements and that the level of commercial investments is proportionate in the context of the Council's overall finances, are:-

- The need to explicitly consider the balance between the security, yield and liquidity, both at strategic and scheme business case level. The guidance focuses on security in terms of the value of the asset invested in, and the ability of the authority to get back any sums invested; yield as the financial return on the investment, either as capital value or income generated, and liquidity as the ability to access liquid or cash funds from the assets when required;
- The need to consider the proportionality of the investments to the authority. The context is the concern that authorities might overstretch themselves relative to their capacity to manage the risk;
- Setting processes that ensure that the risk assessment of commercial investments is robust;
- Ensuring that there is clarity about the contribution that the investments make to the authority, both in terms of financial return, but also in service or policy terms.

2.5.2 In addition, the statutory and CIPFA guidance seek to stop authorities borrowing to fund commercial investments purely for profit, particularly where borrowing is seen as disproportionate to the size of the authority. This is also described as borrowing in advance of need. The bulk of City Council commercial investment is focused on the city or region, and as such it will often have a service dimension, for example growth or economic development objectives rather than being purely for profit.

2.5.3 In respect of the various types of investment that the Council makes, the strategy sets out the approach to ensuring that the requirements are met, through a combination or policies, processes and investment indicators. Specific indicators include exposure limits in 2019/20 for service loans and shares, at £32m and £50m respectively (Appendices 6 & 7b). Revision of these limits would require the approval of Council.

3. Results of consultation undertaken

3.1 The proposals in this report have been subject to public consultation. The Council hosted a survey on its website asking for people's views of the budget proposals and meetings held with the Trades Unions and Chamber of Commerce. The details arising from this consultation are set out in Appendix 2.

3.2 The changes that have been made between the Pre-Budget Report and this report are detailed in **Section 2.2.1**. There have not been any changes resulting directly from the consultation responses.

4. Timetable for implementing this decision

4.1 Many of the individual expenditure and savings identified within this report will be implemented from 1st April 2019. The proposed profile of these changes are set out in Appendix 1.

5. Comments from the Director of Finance and Corporate Services

This report is concerned wholly with financial matters. The proposals within this report represent the basis of the Council's 2019/20 revenue and capital budget supported by the Council Tax Report that will be considered alongside this one.

5.1.1 Financial implications - Medium Term Position

This report sets out proposals that will deliver a balanced budget for 2019/20 which marks the end of the period covered by the Government’s 4 year funding settlement announced previously. New funding arrangements are anticipated to be put in place for 2020/21 which will represent the start of a new period of uncertainty for Local Government. The significant financial gap projected currently for subsequent years demonstrates the need for the Council to continue to exercise robust financial disciplines and to take a medium term approach to Budget setting. Nevertheless, the Council remains in a strong position to meet the financial challenges that it is likely to face. It will remain key for it to deliver the savings proposals that have been assumed within the Budget and to continue to seek efficient delivery of services into the future.

5.1.2 Financial Implications – Reserves

The Local Government Act 2003 requires the Chief Financial Officer to give assurance on the adequacy of reserves of the Authority for which the budget provides. The final position of reserve balances carried forward into 2019/20 will not be known until finalisation of the 2018/19 accounts and reserve levels will be reviewed at that time. The total revenue reserve balances available to the Council at the end of 2017/18 stood at £67m. Other reserve balances set aside to fund capital schemes stood at £31m. Explanations for the balances were set out in the Council’s Financial Outturn Report considered by Cabinet in June 2018. The level of balances is set out in the table below.

Table 8: 2017/18 Reserve Balances

	Balance at 31st March 2017	(Increase)/ Decrease	Balance at 31st March 2018
	£000	£000	£000
Council Revenue Reserves			
General Fund Balance	(3,134)	(1,568)	(4,702)
Private Finance Initiatives	(11,308)	527	(10,781)
Potential Loss of Business Rates Income	(1,970)	(1,444)	(3,414)
Early Retirement and Voluntary Redundancy	(8,261)	0	(8,261)
Birmingham Airport Dividend	(4,400)	0	(4,400)
City of Culture	0	(5,050)	(5,050)

Kickstart Project	(2,986)	(2,082)	(5,068)
Adult Social Care	(18)	(4,780)	(4,797)
Leisure Development	(894)	(705)	(1,599)
Public Health	(740)	134	(606)
Troubled Families	(686)	200	(486)
Insurance Fund	(1,786)	191	(1,595)
Management of Capital	(5,566)	(766)	(6,332)
Other Corporate	(973)	375	(598)
Other Directorate	(5,839)	(1,355)	(7,194)
Other Directorate funded by Grant	(2,785)	592	(2,194)
Total Council Revenue Reserves	**(51,346)**	**(15,731)**	**(67,077)**
Council Capital Reserves			
Useable Capital Receipts Reserve	(20,489)	(3,489)	(23,978)
Capital Grant Unapplied Account	(9,737)	2,558	(7,179)
Total Council Capital Reserves	**(30,226)**	**(931)**	**(31,157)**
School Reserves			
Schools (specific to individual schools)	(18,126)	(1,464)	(19,590)
Schools (for centrally retained expenditure)	(4,493)	(249)	(4,742)
Total School Reserves	**(22,619)**	**(1,713)**	**(24,332)**
Total Overall Reserves	**(104,191)**	**(18,375)**	**(122,566)**

Separately, balances owned by the Council's local authority maintained schools and outside the Council's control, stood at £24m at 31st March 2018.

It is important to be clear that all of the balances above are held for a clear identifiable purpose and that they either have existing planned expenditure commitments against them or that they are held to protect the Council manage unforeseen risks, potential or known insurance claims or Business Rate volatility. Schools reserves are set aside exclusively for the purpose of supporting schools expenditure and capital reserves are set aside to support capital expenditure. Local authority reserves must also be viewed in the context of the risks that are faced, set out below, in section 5.1.4. For these reasons it is not appropriate to apply reserves on a regular basis to support the revenue position.

Taking all this into account, it is the view of the Director of Finance and Corporate Services that overall levels are adequate to support the recommended budget for 2019/20 although approaching the minimum acceptable level for a Council of this size in the current financial climate. This judgement is based on the following:

i) The Council is adequately provided for in terms of its reserves compared to its overall level of budget and better provided for than some other similar authorities.
ii) The level of insurance reserves is sufficient to meet any likely calls on them (within reasonable limits of assessed risk).
iii) The level of reserves is sufficient to support contributions to 2019/20 directorate-based budgets (including schools) and Corporate commitments both for capital and revenue purposes.
iv) The level of uncommitted General Fund Reserves provides a sufficient level of short-term resource to meet any other unforeseen eventualities (within reasonable limits of

assessed risk) balanced against pressures to not hold an excessive level of reserve balances.

The Council's policy on reserve usage is set out in the Medium Term Financial Strategy. The overriding aim is to ensure that reserve usage is focused on delivery of the Council's corporate priorities, recognising that reserves can only be used once and that they should not be used to support on-going expenditure. A number of these reserves are dedicated to specific purposes, such as schools and insurance, and all balances are reported and scrutinised regularly.

5.1.3 Financial Implications – Assurance on the Robustness of the Estimates

Under the terms of the Local Government Act 2003, the Chief Financial Officer is required to give assurance on the robustness of the estimates included in the budget. In the view of the Director of Finance and Corporate Services the budget being recommended to the City Council is supported by robust estimates of income and expenditure. This judgement is based on the following:

i) The budget has been set within the guidelines of the authority's Medium Term Financial Strategy approved by members, that sets out the broad policies and assumptions that lie behind the Council's medium term financial planning process.
ii) There is a medium term financial plan in place that sets out the known changes to the current budget over three years incorporating the concept of strictly controlled Directorate budgets, known policy changes and best estimates of the impact of inflationary pressures and expectations of resources.
iii) The authority operates an integrated medium term policy and financial planning process that incorporates a comprehensive and detailed assessment of the new policy and technical changes that will affect the proposed budget and the medium term budgetary position of the authority.
iv) Individual directorates, working to strict budgets, prepare detailed service budgets that are the financial representation of the authority's statutory duties and corporate service objectives for the coming year.
v) The authority's individual directorates have been involved in the make-up of the information included in the policy and financial planning process through the Strategic Management Board and Corporate Leadership Team.
vi) As discussed above, the Authority's level of reserve balances is sufficient to meet other unforeseen eventualities, within reasonable limits of assessed risk that may potentially need to be met by the authority.

Both of the authority's political groups were provided with information on the policy and financial planning process and were consulted on the options available to enable them to take a full part in the final budget setting decisions.

Despite these statements about robustness of estimates and reserves, the challenges facing the Council in the next few years will require regular monitoring and potentially corrective action.

5.1.4 Financial Implications - Budget Risks

In setting the budget and implementing the policies that sit behind it, the Council inevitably carries some risk. The major financial risks are set out below and will be managed through existing processes, including in year financial monitoring.

5.1.4.1 **Overall Risks -** In considering the Council's corporate objectives in the context of its financial position, resources have been allocated to meet corporate priorities, and savings have been identified. In these circumstances there are inherent risks that need to be managed:

- That new resources are used effectively to deliver corporate objectives. Operational management arrangements and quarterly monitoring reports will address this issue specifically.
- That on-going spending and income is controlled to budgets. This pressure is certain to increase due to on-going national financial circumstances and, therefore, compliance with the Council's budgetary control rules remains essential.

5.1.4.2 **Children's Social Care Services –** The volume of cases and the cost of care continues to represent a large service and budget pressure and the current proposed budget anticipates that not all transformation savings identified previously will be delivered in 2019/20. It is essential that work underway continues to progress to ensure safe and secure methods are found to deliver services to children within budget.

5.1.4.3 **Health and Adult Social Care –** Adult Social Care services continue to operate within a very dynamic environment with cost pressures from changes in living wage rates as well as increasingly complex care packages. Alongside this there is a great deal of uncertainty surrounding longer term resources which is due to be addressed by a green paper, the publication of which has been delayed several times and is now planned for 2019. Locally, this has been recognised and addressed to some degree by additional grant resources that have been made available by Government. Nevertheless, this area of activity is naturally difficult to predict and the Council needs to continue to ensure an appropriate balance between the budget available and the level of activity in line with Council policy. In addition, Public Health Grant has been cut by £3.65m (16%) between 2015/16 and 2019/20. The grant for 2020/21 is still to be confirmed but based on recent reductions a further 2.6% reduction is anticipated.

5.1.4.4 **Housing and Homelessness** – This area of activity has risen to greater prominence in financial terms over the last couple of years with rapidly increasing numbers of people needing to be housed. It has become the most dynamic area of budgetary change for the Council and rising costs in this area are part of a national trend. The Council is now implementing a range of solutions that are required over the medium term and in the interim the budget has directed some further resources to deal with the medium term impacts. These solutions include increasing the provision of accommodation for homeless households in the city (at Caradoc Hall), recommissioning Homeless Services, approving arrangements to allow the Council to implement the Homelessness Reduction Act, adopting a new Private Sector Housing Enforcement Policy and approving the Council's participation in the West Midlands Combined Authority Housing First Pilot, The success of these measures will dictate the extent to which the Council can control and then reduce the costs of housing and homelessness over the medium term.

5.1.4.5 **Major Projects –** The Council is involved in a number of major projects and an increasing number of complex financial transactions that give it some exposure to a degree of financial and reputational risk. These include, but are not restricted to projects such as:

- Friargate – Joint work with an external developer to regenerate a new business district.
- A range of significant highway and city centre infrastructure projects including the Whitley South and A46 link road projects to improve major transport routes.
- Development of the Coventry Station Master Plan alongside a range of partners to deliver transformational improvements to Coventry Railway Station.
- Construction and equipping of a National Battery Manufacturing Development Facility via a joint venture arrangement

- Working with local partners including the Local Enterprise Partnership and involving initiatives such as the Growth Deal to invest in business, regeneration and infrastructure locally.
- Financial arrangements made on commercial terms to help support local organisations and the Council's direct investment in Coombe Abbey Park Limited.
- New regeneration projects aimed at remodelling and updating the city centre

These projects all carry an element of risk, incorporating a mix of external funding risk, risk of default, risk of overruns and over-spending, complex legal arrangements and other reputational eventualities. The Council is clear that its involvement in these projects is vital to help regenerate the city and make Coventry a better place to live, work and do business in. Overwhelmingly, these arrangements have self-funding business cases that keep the Council's financial costs to a minimum.

5.1.4.6 **UK City of Culture** - The Council's support for the UK City of Culture programme in 2021 will involve it in a wide range of new projects and require it to re-evaluate the timing and speed with which it takes forward existing plans, including a massive programme of infrastructure changes. This will involve major risks such as the Council's capacity to deliver these plans, integrating a range of overlapping/conflicting projects and maintaining good governance and procurement protocols.

5.1.4.7 **Local Government Finance Changes** – the regime in which local authorities work is increasingly one in which risk is transferred from central to local government. This increased localisation has been brought forward locally with the Council's participation in the West Midlands 100% Business Rates Pilot, with the proportion of business rates retained locally amounting to 99% for 2019/20. The longer term changes represent a resource risk for the Council and the buoyancy of local Business Rates and Council Tax is fundamental for its financial sustainability. However, due to the nature of accounting for these local income sources, the risk applies to future years such that the 2019/20 budget estimates are secure whilst the Business Rates Pilot is on a no detriment basis.

5.2 Legal implications

The proposals in this report are designed to meet the Council's statutory obligations in relation to setting a balanced 2019/20 budget by mid-March 2019. This includes the duty to report to the Council on the robustness of the estimates provided and the adequacy of the financial reserves in place. Section 31A of the Local Government Finance Act 1992 and Section 25 of the Local Government Act 2003 refer.

6. Other implications

6.1 How will this contribute to achievement of the Council Plan

The Council, in common with all local authorities, will continue to be faced with challenging resource constraints over the coming years, which will inevitably impact on front-line services. The budget is developed within the context of the approved Medium Term Financial Strategy, which in turn rests on the principles set out for the City within the Council Plan. In this way Budget proposals are aligned to existing policy priorities. There are some initial signs that the Council is moving into a new phase of financial self-sufficiency and it will want to ensure that its key objectives and financial strategies are aligned as this situation develops.

6.2 How is risk being managed?

The inability to deliver a balanced budget is one of the Council's key corporate risks. The proposals within this report are aimed directly at trying to mitigate this risk. The scale and scope of savings that have not yet been delivered within the Council's bottom line budget position are such that they represent a significant risk of non-achievement in the future. The savings programme will continue to be monitored robustly to ensure that Strategic Management Board and members are kept up to date with the progress of these reviews.

6.3 What is the impact on the organisation?

The savings proposals, transformation programmes and in particular the Council's expanding Capital Programme mean that the Council will have to continue to adapt to meet the challenges that it faces both in terms of the way it works and the services it provides. The Council has begun to consider plans to address the financial gaps that exist for the years after 2019/20 but this work is at a relatively early stage. To the extent that these involve savings in employee costs the Council may need to consider further early retirement and voluntary redundancy requirements at that point.

6.4 Equalities / EIA

The savings contained in this year's final Budget report are virtually all either technical in nature or involve income generation proposals. No equality impact has been identified in relation to these. For any previously budgeted savings that have not yet been implemented, equality analysis will continue to be carried out by service areas and considered by elected members at the appropriate stages of subsequent decision making.

6.5 Implications for (or impact on) the environment

None

6.6 Implications for partner organisations?

None

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