Coventry City Council

Public report
Cabinet

Cabinet	25th February 2020
Council	25th February 2020

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

Director Approving Submission of the report:
Director of Finance and Corporate Services

Ward(s) affected:
All

Title:
Budget Report 2020/21

Is this a key decision?
Yes - The report sets the Council's Revenue Budget for 2020/21, the Capital Programme for 2020/21 to 2024/25 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 19th November 2019 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 2020/21 incorporating the following details:

- Gross budgeted spend of £744m (no change from 2019/20).
- Net budgeted spend of £239m (£7m and 3% higher than 2019/20) funded from Council Tax and Business Rates less a tariff payment of £19.9m due to Government.
- A Council Tax Requirement of £141.4m (£6.2m and 4.6% higher than 2019/20), reflecting a City Council Tax increase of 3.9% detailed in the separate Council Tax Setting report on today's agenda.
- A number of new expenditure pressures, savings and income generation proposals within Council services.
- A Capital Strategy including a Capital Programme of £232.7m including expenditure funded by Prudential Borrowing of £33.1m.
- An updated Treasury Management Strategy, Capital Strategy and a Commercial Investments Strategy.

The financial position in this Budget Report is based on the Final 2020/21 Local Government Finance Settlement and incorporates a funding position which broadly matches that of 2019/20. This position contains significant uncertainty for the period after 2020/21 which will be subject to medium-term spending decisions by the new Government. Decisions are awaited on whether this will include a revised allocation model within the Local Government sector and a new national Business Rates retention model. As a result it is impossible to provide a robust financial forecast at this stage and the Council has included some prudent planning figures. Initial assumptions indicate the likelihood that 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.

2020/21 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 Council 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 3.9% and this position has been maintained for the final proposals in this report. This incorporates an increase of 1.9%, which is within the Government's limit of 2% and above which a referendum would need to be held, plus a further 2% relating to the Adult Social Care Precept. This proposed increase will be the equivalent of around 90p a week for a typical Coventry household.

In broad terms the Government Settlement has maintained the level of resources available to the Council to support its financial position through a combination of Council Tax and retained Business Rates less a tariff payable back to Government. Set against this is the need for the Council to reflect a range of inflationary pressures, the non-achievement of some savings plans and the emergence of new expenditure pressures, the bulk of which reflect socio-demographic trends across the country. This combination of results has left the Council needing to address a significant financial gap which 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.

The proposals do not provide the Council with a balanced medium term position beyond 2020/21. Local government still awaits the setting out of a medium term funding settlement from Government and the Council's current medium term bottom line incorporates a combination of future inflationary and service pressures, uncertain specific grant resources and potential resource reductions through the Fair Funding review. The current assumptions on future funding are purely speculative at this stage and the possibility remains that the position could be somewhat better than planned currently (with a lower probability that they could be worse). The Council will need to take stock through 2020 as Government thinking emerges on the changes to local government finance. The initial approach will however be dictated by a need to make significant further savings from or generate further income within Council services. The Council is developing a transformation programme under the banner of 'One Coventry' with key strands incorporating more commercialisation of services, an enhanced digital approach and Place Based services (how services are delivered across the city).

It is not yet clear on what basis any forthcoming national proposals for local government finance will be established but it is highly likely to continue to include a Business Rates retention model beyond 2020/21. This adds further impetus to the need for the Council to continue to support the vibrancy and growth of the city to provide for a secure level of Business Rates income and move towards greater self-sufficiency. The recommended Capital Programme proposals are designed to help achieve this and amount to £232.7m in 2020/21. The proposals reflect the Council's ambitions for the city and include the completion of the UK Battery Industrialisation Centre, extensive public realm works in the city centre, significant redevelopment of Coventry Railway Station, early works on two new buildings within the Friargate district of the city, progression of the extensive UK Central & Connectivity programme and continuation of the Whitley South Infrastructure projects. Over the next 5 years the Capital Programme is estimated to be £703m as part of on-going massive investment delivered by and through the City Council.

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 2020/21 revenue budget of **£744m** in **Table 1** and **Appendix 3,** established in line with a 3.9% 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 £232.7m for 2020/21 and the future years' commitments arising from this programme of £703m between 2020/21 to 2024/25 detailed in **Section 2.3** and **Appendix 4**.

(5) Approve the proposed Treasury Management Strategy for 2020/21 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 2020/21 in **Section 2.5** and **Appendidx 6** and the Commercial Investment Indicators detailed in **Appendix 7b**.

(7) Approve a new scheme within the Capital programme for the refurbishment of St Marys Guildhall at a total cost of £3m funded from Prudential Borrowing as outlined in paragraph 2.3.3.

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 2020/21 to 2024/25
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 25th 2020

Budget Report 2020/21

1. Context (or background)

1.1 This report seeks approval for the 2020/21 Revenue Budget and corresponding Council Tax rise, Capital Programme and Strategy, Treasury Management Strategy, Commercial Investment Strategy and associated investment and prudential indicators. The report includes detail of the resources retained as part of the 2020/21 Government funding allocation and forecasts of the Council's medium term revenue financial position. The revenue budget proposals in this report follow on from the Pre-Budget Report approved by Cabinet on 19th November 2019. They have been established in line with the Council's current Medium Term Financial Strategy and Council Plan,

1.2 The Government announced the Final Local Government Finance Settlement for 2020/21 on 6th February 2020. The settlement provides a core funding level that is consistent with 2019/20. This represents an improvement compared with the Council's previous financial estimates which assumed funding reductions going forward. No firm picture has been given for the period starting in 2021/22 and the Council's existing planning estimates assume further reductions. It is too early to say whether any further clarity will be brought to local government funding arrangements through this year but the Council will seek to refresh its assumptions based on updated information and current thinking as it emerges.

1.3 Although there have been indications that the period of year on year local government funding reductions has come to an end, it is too early to place any firm financial estimates on what this will mean for the Council's financial position. However, resources available to Coventry through the Local Government Finance Settlement had fallen by c£120m in the ten year period up to 2019/20 on a like for like basis. The context of the Council's financial position going forward therefore is that it is starting from a much lower financial base than it used to, at a time when demographic and demand led pressures exist across a range of services. This means that the Council will continue to need to identify efficient ways of working and more commercial, digital and streamlined approaches to service delivery.

1.4 At the conclusion of the 2019/20 Budget process the Council was projecting a 2020/21 budget deficit of £17m. However through the current Budget exercise it emerged that some existing savings plans planned for 2020/21 were unlikely to be delivered whilst new budget pressures have also arisen. This resulted in a projected budget shortfall in excess of £30m in 2020/21 rising in subsequent years. The Government Spending Round announced in September enabled the Council to revise its expectations of core Government funding levels and several funding streams in relation to social care, improving the financial position. These developments were incorporated within the Pre-Budget Report approved by Cabinet in November alongside the technical and service savings proposals which together produced a near balanced position.

1.5 In 2019/20 councils nationally had the flexibility to increase Council Tax by up to 3% without holding a local referendum on the matter. Additional flexibility to increase Council Tax in recognition of pressure on Adult Social Care (ASC) services over a three year period had already been utilised in 2017/18 and 2018/19 within Coventry so was not available locally in 2019/20. The 2020/21 Budget is based on a referendum limit of 2% with further ASC precept flexibility of 2% in line wih the Council Tax Report on today's agenda. The Pre-Budget Report was approved on the basis of a Council Tax rise of 3.9% - within the parameters of these flexibilities - 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. In August 2019, Cabinet approved capital funding as part of the city's Cultural Capital Investment Fund within a total City Council programme of enhancements to Cultural and Heritage assets of c£15.9m alongside other grant funding and investment opportunities that have already been secured through third parties up to a value of £47m that will also contribute to the readiness of cultural assets for 2021. Cabinet have been informed previously of the significant challenge in managing the number and size of complex and overlapping projects within a relatively compact city and tight timescale and these issues will inevitably continue to exist and increase over the coming 2 year period. 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£703m over the next 5 years. The city's aspiration continues to be 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. The national economic and political context, including the stucture of any future Business Rates Retention model, will play a factor in the degree to which this can be achieved over this period but the Council will continue to explore a range of options that increase the degree of control that it has over its own destiny.

1.8 Whilst local authorities have been required to have a treasury management strategy, more recent statutory government guidance has extended 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. The Council's arrangements in this regard are set out in the Capital Strategy, Commercial Investment Strategy and associated investment and prudential indicators referred to above.

1.9 <u>Revenue Resources</u>

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

2019/20 £000s		2020/21 £000s	Change from 19/20 £000s	Change from 19/20 %
(135,192)	A: Council Tax Requirement	(141,381)	(6,189)	5%
(116,276)	B: Business Rates Income	(117,323)	(1,074)	1%
19,618	C: Tariff	19,938	320	2%
(409,800)	D: Specific Grants (see section 3.4)	(404,582)	5,218	1%
(102,792)	E: All Other Income	(100,934)	1,858	2%

(231,850)	**Funding of Net Budget (A + B + C)**	**(238,766)**	**(6,916)**	**3%**

(744,442)	**Funding of Gross Budget (A + B + C + D + E)****	**(744,282)**	**160**	**0%**

Line A above reflects the city Council Tax increase of 3.9%, 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 No information is available currently about the level of resoures that will be available to the Council in future. This will be subject to decisions over the Government's spending plans and any changes in the Local Government Finance model which the Government is continuing to assess. The Council's medium term financial forecast reflected in Appenix 1 assumes some modest reductions in resources in future years although this cannot be used as a reliable indication at this stage.

1.9.3 The Council is in a similar position to many councils having experienced significant reductions in the resources it received from Government since 2010. In efforts to maximise the benefit realisable within the current system Coventry is currently a member both of the Coventry and Warwickshire Business Rates Pool and the West Midlands West Midlands Business Rates Pilot, the latter which enables the Council to retain 99% of Business Rates

1.9.4 As a result of lower resource settlements from Government and 99% Business Rates retention the Council needs to make a tariff payment <u>to</u> Government in contrast to the top-up payment that it used to receive <u>from</u> Government under previous funding arrangements. This tariff payment now stands at £19.9m for 2020/21, broadly in line with the previous year. This indicates that the Council is judged by Government to be earning a greater level of Council Tax and retained Business Rates (plus specific grants) than it requires for its assessed spending needs. This position reflects a combination of cuts to Government funding for local government and to a limited degree, indications that the Council has a degree of self-reliance (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 areas 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.

1.9.5 In overall terms specific revenue grant funding is expected to decrease between 2019/20 and 2020/21 from £410m to £405m. The headline reduction is due to a reduction in the total level of funding for LEA schools (including the Dedicated Schools Grant and Pupil Premium Grant). This is expected to be £173m, compared with £184m in 2019/20 with the decrease being the result of further schools moving to academy status. The total of all other grants has increased marginally. Housing Benefit Subsidy payments have been estimated at £114m, whilst other significant grants include adult social care funding (£39m) including the Improved Better Care Fund, Public Health (£22m), grants relating to Business Rates (£13m), Private Finance Initiative grants (£9m), Adult Education funding (£6m) and the New Homes Bonus (£5m).

1.9.6 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 since 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 3.9% which includes an Adult Social Care Precept of 2%.

2.1.2 The report seeks approval for a 2020/21 Capital Programme of £232.7m compared with the initial 2019/20 programme of £229.9m. 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 19th November 2019 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 summary and detailed changes since the Pre-Budget Report are shown in tables 2 and 3 below. These changes enable the Council to deliver a balanced budget for 2020/21 but indicate that a financial gap will arise based on known current conditions for subsequent years.

Table 2: Summary Changes to Pre-Budget Report Position

	2020/21 £m	**2021/22** £m	**2022/23** £m	**2023/24** £m
Pre-Budget Report Position	**0.8**	**28.1**	**37.6**	**42.0**
Resources	(3.9)	(6.4)	(4.4)	(6.0)
Expenditure Pressures	1.0	1.5	1.5	1.5
Technical Savings	(1.7)	(4.4)	(4.1)	0.0
Service Savings	1.3	0.2	0.2	0.2
Policy Spending Priorities	2.5	0.1	0.1	0.1
Final Budget Position	**0.0**	**19.1**	**30.9**	**37.8**

Table 3: Detailed Changes in Proposals Compared with the Pre-Budget Report Position

	Appx 1 Line Ref	2020/21 £m	2021/22 £m	2022/23 £m
Pre-Budget Report Position		**0.8**	**28.1**	**37.6**
Council Tax Collection Fund	2	0.3	(6.3)	(4.4)
New Homes Bonus	4	(1.8)	0.0	0.0
Adult Social Care Precept	3	(0.1)	(0.1)	(0.1)
Independent Living Fund	8	(2.3)	0.0	0.0
Coventry & Warwickshire Business Rates Pool	9	0.0	0.0	0.1
Dedicated Schools Grant Historic Liabilities	15	(0.5)	0.0	0.0
Housing and Homelessness	16	1.2	1.2	1.2
National Living Wage	20a	0.3	0.3	0.3
Superannuation Actuarial Review	22a	(1.7)	(4.4)	(4.1)
Building Cleaning	45	0.05	0.0	0.0
Public Health Keeping Coventry Warm	50	0.05	0.0	0.0
Community Capacity and Resilience Grants	52	0.05	0.0	0.0
War Memorial Park Charging for parking	53	0.2	0.2	0.2
War Memorial Park Charging for Water Feature	54	0.015	0.015	0.015
Bus Lane Enforcement	63	0.1	0.0	0.0
Highways Maintenance	67	0.85	0.0	0.0
Climate Change Strategy	69	0.1	0.1	0.1
City Wide Cleaning	70	2.1	0.0	0.0
Average Speed Cameras	71	0.3	0.0	0.0
Final Budget Position		**0.0**	**19.1**	**30.9**

2.2.2 Pension Contributions - The Council's arrangements with the West Midlands Pension Fund has been subject to a recent triennial review of superannuation payments covering the period from 2020/21 to 2022/23. Discussions have been held with the Fund and its actuary on payments to the Fund for the next three years and final agreement will be reached shortly. This will incorporate a reduced superannuation rate of 22.9% which has been reflected in the proposals within this report. The Council is also negotiating with the Fund to pay all of its employer contributions for the next three years via a discounted one-off payment of c£100m in April 2020 which will be spread over three years in accounting terms. This mirrors a similar arrangement undertaken in 2017 and is one that a number of West Midlands authorities are likely to take advantage of. The financial impact of the final agreement will be incorporated into the Council's medium term financial position.

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 £232.7m which contains a number of strategically significant schemes. This compares with the current projected 2019/20 programme of £215.9m 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 2020/21 planned expenditure as follows:

- £91m of investment in the City's Highways and Public Realm infrastructure. This includes the completion of the Whitley South bridge, UK Central and Connectivity programmes as part of the Strategic Transport Investment Programme, Public realm provision under City of Culture and Coventry Station Masterplan
- £39m for the final phases of the National Battery Manufacturing Development facility.
- £23m for the second phase (Building 2 and the Hotel) of the Friargate Business District and the redevelopment of a major part of the City Centre
- A £22m programme within the Education and Skills Portfolio, seeing the implementation of the One Strategic Plan and investment in secondary school provision.
- £14m for the Uk City of Culture including the planned refurbishment of St Mary's Guildhall
- £12m for the final round of Growth Deal Projects

2.3.3 As part of this Budget Report, approval is sought for a new capital scheme for the refurbishment of the St Mary's Hall complex at a total value of £5.2m (a further c£0.4m may be incurred depending on the extent of need for condition works). Very tight timescales demand commitment to early work on the scheme ahead of a more comprehensive formal report in March 2020, and on this basis outline approval to commence the scheme is being sought as part of this report. The scheme will include:

- Restoration of the medieval kitchen
- Conservation and improved display of the medieval tapestry
- Enhanced disability access
- Digitally interactive visitor engagement
- Condition maintenance works exterior conservation.
- Creation of a new feature bar that will be incorporated into the Great Hall

- Creation of a new purpose-built kitchen with facilities suited for large scale commercial catering
- The offer of a modern conferencing suite and facilities

Confirmed resourcing for the scheme will be provided by £2.2m of funding from the Arts Council and the Council's previously identified capital commitment to the City of Culture Capital Programme. At this stage a maximum of £3m could be provided from Prudential Borrowing financed by a business case supported from the anticipated extensive new commercial offer of the complex. Further grant funding is currently being sought to minimise the requirement for borrowing.

2.3.4 The 2020/21 Programme requires £33.1m of funding from Prudential Borrowing, £24.8m of which relates to previous approvals for the Coventry Station Masterplan, replacement vehicle programme, Whitley Depot, Lenton Lane Cemetery and the re-provision of bowls. A further £8.3m 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 £155m 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.

2.3.5 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 2020/21 Capital Programme is £179m of Capital grants as follows.

Table 4: Capital Grant Funding

Grant	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Total £m
Arts Council (DCMS)	8.4	0	0	0	0	**8.4**
Disabled Facilities Grant	4.4	3.4	3.4	3.4	3.4	**18.0**
Department for Transport	8.5	1.3	15.8	20.1	4.1	**49.7**
Education Funding Agency	14.4	3.5	6.9	5.5	1.7	**32.0**
Growth Deal	15.7	0	0	0	0	**15.7**
Heritage Lottery Fund	1.2	0.1	0.0	0.0	0.0	**1.3**
Highways England	1.0	1.3	0	0	0	**2.3**
Innovate UK	21.2	0	0.0	0.0	0.0	**21.2**
West Midlands Combined Authority	84.9	89.0	76.1	24.6	1.6	**276.2**
Private Sector Contribution	8.8	0.7	1.3	1	5.5	**17.3**
All Other Grants & Contributions	10.1	33.1	14.9	0	0	**58.1**
TOTAL PROGRAMME	**178.5**	**132.3**	**118.4**	**54.6**	**16.3**	**500.0**

2.3.6 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.

2.3.7 **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 2020/21 for individual projects.

A summary of the proposed programme including existing commitments and funding sources is outlined below. This includes expenditure rescheduled into 2020/21 as a result of the 2019/20 budgetary control process. Full details of the proposed programme are included in **Appendix 4.**

Table 5: 2020/21 – 2024/25 Capital Programme (Expenditure & Funding)

Portfolio Expenditure	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Total £'000
Policy and Leadership	13,535	2,097	217	0	0	**15,849**
Strategic Finance & Resources	2,229	1,000	1,000	1,000	1,000	**6,229**
Education & Skills	22,266	20,864	7,197	5,678	1,652	**57,657**
Jobs & Regeneration	134,822	101,947	150,409	44,798	52,587	**484,563**
City Services	52,886	42,085	10,589	5,581	4,869	**116,010**
Adult Services	4,402	3,402	3,402	3,402	3,402	**18,010**
Public Health & Sport	2,504	308	34	23	684	**3,553**
Housing & Communities	100	1,310	0	0	0	**1,410**
TOTAL PROGRAMME	**232,744**	**173,013**	**172,848**	**60,482**	**64,194**	**703,281**

Funding	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Total £'000
Management of Capital Reserve	1,504	418	200	200	0	**2,322**
Capital Unringfenced Receipts	10,919	645	200	125	125	**12,014**
Capital Ringfenced Receipts	0	920	0	0	0	**920**
Prudential Borrowing	33,141	25,290	50,656	2,185	43,762	**155,034**
Grant	178,548	132,276	118,389	54,580	16,254	**500,047**
Capital Expenditure from Revenue	3,687	3,030	3,369	3,369	3,369	**16,824**
Section 106	4,945	10,434	34	23	684	**16,120**
TOTAL PROGRAMME	**232,744**	**173,013**	**172,848**	**60,482**	**64,194**	**703,281**

2.3.8 Leasing

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

2.3.9 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 Council has sought to use its receipts actively in recent years both to fund the purchase of new income generating assets (e.g. the B&M Store site) or to support priority capital projects such as the cultural capital investment programme. The following table sets out the Council's forecast capital receipts flows and expenditure commitments although these are subject to significant volatility given the nature of activity in this area.

Table 6: Forecast Capital Receipts

	2020/21 £000s	2021/22 £000s	2022/23 £000s	£2023/24 £000s
Forecast (Receipts Brought Forward)/Receipts Shortfall	(7,264)	1,935	4,900	5,500
Forecast New Receipts	(4,060)	(12,300)	0	0
Total Receipts	**(11,324)**	**(10,365)**	**4,900**	**5,500**
Commitments	13,259	15,265	600	125
Receipts Shortfall/(Receipts Carried Forward)	**1,935**	**4,900**	**5,500**	**5,625**

Known current commitments or those planned for the near future are expected will exhaust existing levels of receipts within 2020/21. It is important to stress that the final position is likely to be somewhat better than projected at this stage both because a prudent view of future receipts has been included and because expenditure commitments are unlikely to all be incurred to the timescale indicated. As a last resort and after any appropriate review of existing commitments, any temporary shortfall would need to be filled from existing uncommitted revenue or capital reserves, from budgetary underspends or from borrowing, where this is consistent with the expenditure incurred. The key point to note at this stage is that the Council will not be able to enter into any further commitments involving capital receipts until and unless further capital receipts are identified above those included above.

2.3.10 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 liability of £554m (31st March 2019). 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 (see Section 2.2.2).

2.3.11 Capital Financing Requirement

Taking into account the planned programme set out in the Table 5 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 7 : 2020/21 Capital Financing Requirement (including PFI & Finance Leases)

Forecast CFR Movements	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**
Opening CFR - 1st April	**440.3**	**474.2**	**492.5**	**500.4**	**531.3**
Capital Spend met from borrowing	46.8	33.1	25.3	50.7	2.2
Minimum Revenue Provision	-11.5	-13.4	-15.7	-17.9	-19.5
Other	-1.3	-1.5	-1.7	-1.7	-2.0
Closing CFR - 31st March	**474.2**	**492.5**	**500.4**	**531.3**	**512.0**

Over the 5 years from 1st April 2020, it is forecast that the CFR will increase by c£72m or approximately 16% reflecting the the level of the borrowing required to meet the capital programme, less amounts set aside to repay debt as MRP.

2.3.12 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 £30.3m in 2020/21 to £36.5m in 2022/23, 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 2.4.5.

2.3.13 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

The Council's treasury management adviser Arlingclose is forecasting that the Bank Rate will remain at 0.75% until the end of 2022. However, there are risks associated with this forecast and there is a good chance that the Bank Rate may fall, given the recent general election, the need for greater clarity on Brexit & the continuing global economic downturn

2.4.4 Borrowing

Based on current estimated levels of spend the expected long term debt position of the authority at 31st March 2020 is as follows:

Table 8: Estimated Long Term Borrowing at 31st March 2020

Type of Debt	Total £m
PWLB	190.4
Money Market Loans	38.0
Stock Issue	12.0
Transferred Debt (other authorities)	10.2
PFI, Finance Lease & Other	65.2
Total Long Term Liabilities	**315.8**

The above table indicates that the Council has previously raised the majority of its long term borrowing from the PWLB but the government increased PWLB rates by 1% in October 2019 making it now a relatively expensive option. The Council will now consider other options when borrowing over the long term, including banks, pensions, and local authorities while also investigating the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

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 & Leases - under accounting rules, liabilities to make payments under PFI schemes and certain 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); 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 or vehicles set up by local authorities to enable joint local authority bond issues such as the UK Municipal Bonds Agency plc which was established in 2014 as an alternative to the PWLB. It plans to issue bonds on the capital markets & lend the proceeds to local authorities.

Given the Capital Programme and the increase in the underlying need to borrow represented by the Capital Financing Requirement and the pension prepayment being made in April, all 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 2020/21 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 2019/20 the amount held in these investments has ranged between £0m and £30m;
- 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 2019/20 the amount held in these investments has ranged between £30m and £70m.
- 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 2019/20 the amount held in these investments has ranged between £1m 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 maintained at £10m. Similarly, for secured investments which are not subject to "bail in", the maximum limit will be maintained at £20m.

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 a £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 A- or better;

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 a £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 13.05% in 2019/20 to 16.28% in 2022/23. 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 2020/21 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 50% 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. This limit has increased from 40% in 2019/20 as a result of the pension prepayment whereby there is a strong likelihood of short term borrowing being used to fund this due to low short term interest rates and the short term nature of the payment.
- Other indicators highlight Planned Capital Spend (Indicator 4), Actual Debt at 31st March 2019 (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 and set appropriate indicators to illustrate this, as recently re-emphasised by CIPFA in informal guidance to local authorities. The context is the concern that authorities might overstretch themselves relative to their capacity to manage the risk. Investments in commercial assets are proportionate to the size of the Council, with income from such investments respresenting 3.1% (forecast 2020/21) of Net Service Expenditure (Indicator 7) and with an asset value of £399m or representing 28.9% of the Council's Total assets (Indicator 1)
- 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 2020/21 for service loans and shares, at £53m and £50m respectively (Appendices 6 & 7b). Revision of these limits would require the approval of Council. The limit of £53m for service loans includes a significant increase over the 2019/20 limit of £32m. This is due the inclusion of major development schemes already approved that may entail the Council providing its investment via loans, depending on the final agreed structures, including the UK BIC battery plant and Materials Recycling Facility (MRF) developments.

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**. Those changes that have provided budget flexibility (in particular relating to New Homes Bonus, the Independent Living Fund and the Superannuation Actuarial Review) have provided the opportunity to consider a number of new spending proposals and the removal/reduction of some savings proposals. Several of these changes to savings proposals align closely with comments made most frequently within the consultation.

4. Timetable for implementing this decision

4.1 Many of the individual expenditure and savings identified within this report may be implemented from 1st April 2020. 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 2020/21 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 2020/21. The new funding arrangements that were planned by Government to be put in place for 2020/21 have not occurred so the Council is still planning within a state 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 seek to deliver several key transformation programmes that are being developed under the banner of One Coventry.

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 2020/21 will not be known until finalisation of the 2019/20 accounts and reserve levels will be reviewed at that time. The total revenue reserve balances available to the Council at the end of 2018/19 stood at £82m. Other reserve balances set aside to fund capital schemes stood at £23m. Separately, balances owned by the Council's local authority maintained schools and outside the Council's control, stood at £26m at 31st March 2019. Explanations for the key balances were set out in the Council's Financial Outturn Report considered by Cabinet in June 2019. The level of balances is set out in the table below.

Table 9: 2018/19 Reserve Balances

	Balance at 31st March 2018	(Increase)/ Decrease	Balance at 31st March 2019
	£000	£000	£000
Council Revenue Reserves			
General Fund Balance	(4,702)	(5,575)	(10,277)

Adult Social Care	(4,798)	1,264	(3,534)
Public Health	(606)	(182)	(788)
Troubled Families	(486)	(609)	(1,095)
Leisure Development	(1,599)	265	(1,334)
Kickstart Project	(5,068)	3,790	(1,278)
City of Culture	(4,750)	0	(4,750)
Potential Loss of Business Rates Income	(3,414)	(4,321)	(7,735)
Redundancy and Early Retirement	(8,261)	(1,809)	(10,070)
Commercial Developments	0	(4,000)	(4,000)
Insurance Fund	(1,595)	(103)	(1,698)
Management of Capital	(6,332)	933	(5,399)
Private Finance Initiatives	(10,781)	612	(10,169)
Other Directorate	(7,194)	(2,295)	(9,489)
Other Directorate funded by Grant	(2,193)	629	(1,564)
Other Corporate	(5,298)	(3,291)	(8,589)
Total Council Revenue Reserves	**(67,077)**	**(14,692)**	**(81,769)**
Council Capital Reserves			
Useable Capital Receipts Reserve	(23,978)	2,511	(21,467)
Capital Grant Unapplied Account	(7,179)	5,285	(1,894)
Total Council Capital Reserves	**(31,157)**	**7,796**	**(23,361)**
Schools Reserves			
Schools (specific to individual schools)	(19,590)	(718)	(20,308)
Schools (related to expenditure retained centrally)	(4,742)	(1,342)	(6,084)
Total Schools Reserves	**(24,332)**	**(2,060)**	**(26,392)**
		0	
Total Reserves	**(122,566)**	**(8,956)**	**(131,522)**

All of the balances above are held for a clear identifiable purpose and have existing planned expenditure commitments against them or 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.

CIPFA's recently published Resilience Index contained results indicating that the Council's overall level of reserves placed it in the middle of the pack compared to similar authorities. The Council's level of unallocated reserves (in effect its general fund or working balance) places it in just within the highest risk quartile. A different indicator showing the change in this balance demonstrates that the Council has increased these reserves in recent years, moving it away from what was a lower ranking last year.

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 2020/21 and is no longer approaching the minimum acceptable level for a Council of this size. 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 2020/21 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. These 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 four 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 participate 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.

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 new resources are not used effectively to deliver corporate objectives and that on-going spending and income is not controlled to budgets. Operational management arrangements and quarterly monitoring reports in compliance with the Council's budgetary control rules will address this issue specifically.

5.1.4.1 **Housing and Homelessness** – This area of activity has become the most dynamic area of budgetary change for the Council in recent years. and rising costs in this area are part of a national trend with increasing numbers of people needing to be housed. The Council is now implementing a range of solutions that are required over the medium term and successive budgets have directed further resources to deal with the medium term impacts. 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 and/or manage any further pressure in this area.

5.1.4.2 **Children's Social Care Services –** The increased volume of cases, cost of individual placements and delays in the delivery of Children's placement transformation continues to represent a large and volatile service and budget pressure. Children's Transformation Board continues to monitor the progress of Looked After Children placement transformation. This work will continue 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 yet to be addressed by promised Government reform. Locally, this has been recognised and addressed to some degree by additional grant resources that have been made available by Government and a medium term Adult Social Care financial plan put in place within the Council's budget. 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.

5.1.4.4 **Major Infrastructure Projects –** The Council is involved in a number of major infrastructure projects around the city that give it some exposure to a degree of financial and reputational risk. These include, but are not restricted to projects such as:

- 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.
- Very significant Public Realm regeneration projects aimed at remodelling and updating the city centre

These projects all carry different balances of risk including project overrun, over-spending, expectation to meet funding gaps and reputational damage from any of these and other factors. 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 are externally funded or have self-funding business cases that keep the Council's financial costs to a minimum. Any decisions to move away from this base position would need to be made on a case by case basis within the Council's existing resource constraints.

5.1.4.5 **Commerical Projects –** The Council is involved in or investgating a range of major commercial acivities. These can include some of the risks outlined for the infrastructure projects above as well as some additional risk from the commercial performance of each venture. These include, but are not restricted the following projects:

- Friargate – Joint work with an external developer to regenerate a new business district.
- Construction and equipping of the UK Battery Industrialisation Centre via a joint venture arrangement.
- Development of City Centre South, working with a major development partner to regenerate a large area of the city centre.
- Financial arrangements made on commercial terms to help support local organisations and the Council's direct investment in Coombe Abbey Park Limited.
- Development of a Material Recycling Facility within the city.

These projects are subject to a range of ownership and company structure arrangements, complex legal and financial transactions, a risk that commercial pay-back targets (for instance to finance prudential borrowing decisions) are not achieved and a wider risk that projects do not deliver their fundamental purpose (where this is different to specific financial targets). As above, in making decisions to pursue these projects the Council is clear that its involvement is consistent with its overarching objectives. In addition, the Council undertakes significant due diligence and ensures that self-funding business cases support any expenditure to keep the Council's financial costs (and risk) to a minimum. Nevertheless, to the extent that these projects are commercial ventures it must be recognised that their future financial performance will always be subject to a degree of risk.

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** – there have been delays to previously indicated changes to local government finance including the overall local government funding settlement, a fair funding review (the share of local government resources allocated to the Council), 75% Business Rates retention and announcement of future specific grant regimes, especially those for adult social care. 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 2020/21 budget estimates are secure.

5.2 Legal implications

The proposals in this report are designed to meet the Council's statutory obligations in relation to setting a balanced 2020/21 budget by mid-March 2020. 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 other key financial risks are identified in section 5.1.

6.3 What is the impact on the organisation?

There are only a small number of savings proposals that will impact upon the number of staff employed by the Council in future. The savings proposals, transformation programmes, large Capital Programme and adoption of commercially based projects mean that the Council will have to continue to adapt to meet the challenges that it faces in terms of the way it works.

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 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

The Council is due to update its Climate Change Strategy in 2020 to support the commitment it has made to respond to the climate change agenda. This wil be funded by an expenditure proposal within this Budget Report. There are two savings proposals for street lighting that should improve the Council’s overall energy efficiency .

6.6 Implications for partner organisations?

None

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