Coventry City Council

Public report
Cabinet Report

Cabinet	24 February 2015
Council	24 February 2015

Name of Cabinet Member:
Strategic Finance and Resources - Councillor Gannon

Director Approving Submission of the report:
Strategic Management Board

Ward(s) affected:
All

Title:
Budget Report 2015/16

Is this a key decision?
Yes - The report sets the Council's Revenue Budget for 2015/16 incorporating revenue spending and savings decisions for 2015/16 and future financial years and the Capital Programme for 2015/16 to 2019/20.

Executive Summary:

This report follows on from the Pre-Budget Report approved by Cabinet on 2nd December 2014 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 2015/16 incorporating the following details:

- Gross budgeted spend of £719m (£5m and 1% lower than 2014/15).
- Net budgeted spend financed by Revenue Support Grant, Council Tax and local Business Rates of £238m (£20m and 8% lower than 2014/15).
- A Council Tax Requirement of £102.2m (£3.4m and 3.4% higher than 2014/15), reflecting a City Council Tax increase of 1.9% detailed in the separate Council Tax Setting report on today's agenda.
- A Capital Programme of £118m (£6m and 5% less than the latest estimated 2014/15 programme) including expenditure funded by Prudential Borrowing of £43m.

The allocation of Government funding for 2015/16 was confirmed in the Local Government Finance Settlement announced on 3rd February 2015. This was broadly in line with previous expectations and incorporated a headline reduction in Revenue Support Grant of £24m (15%) from 2014/15 levels. In overall terms, the reduced Government funding is equivalent to a like-for-like reduction of £638 for every Coventry household between 2010/11 and 2015/16.

In line with its Medium Term Financial Strategy, the Council has continued to meet the challenge of significantly reduced resources through its programme of projects under the abc (A Better Council) banner. This Budget Report reflects a new phase of transformation incorporating the following projects - Kickstart, Customer Journey, City Centre First, a new Workforce Strategy and Doing Things Differently. The report incorporates savings within these programmes plus some expenditure proposals and pressures which together produce a balanced budget position for 2015/16.

This package of changes allows the Council to continue to deliver its key policies, confirmed in the Council Plan approved on 14th January 2014. As part of this, the plan acknowledges the reductions in resources that face the City Council and the need for the Council to reduce costs, maximise income and the use of its assets and work in a flexible and adaptable manner. These themes are reflected within the transformation plans above which will also encompass the need for the Council to revise its expectations and those of its citizens and taxpayers in relation to the range, level and location of services that will be delivered in the future.

Despite the financial pressure it faces the Council is maintaining an ambitious approach to Kickstarting the Friargate business district, implementing the Coventry Investment Fund proposals and leading the drive for economic growth and regeneration. The financial foundations for taking forward these initiatives have been approved within existing decisions and are not subject to specific recommendations within this report.

The proposed rise in Council Tax levels is just below the limit set by Government, beyond which a referendum would be required. This referendum limit has been set at 2% and the recommended Council Tax rise is proposed just below this at 1.9%. This option makes a modest amount of resources (£1.9m) available to the Council in the short-term and guarantees the long-term security of this funding to help protect services provided to the people of Coventry.

Recommendations:

That Cabinet recommend to Council the approval of recommendations (1) to (5).

Council are recommended to:

(1) Approve the spending and savings proposals in **Appendix 2**.

(2) Approve the total 2015/16 revenue budget of **£238m** in **Table 1** and **Appendix 4,** established in line with a 1.9% City Council Tax increase and the Council Tax Requirement recommended in the Council Tax Setting Report considered on today's agenda.

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

(4) Approve the Capital Programme of £118m for 2015/16 and the future years' commitments arising from this programme of £244m in 2016/17 to 2019/20 detailed in **Section 2.3** and **Appendix 5**.

(5) Approve the proposed Treasury Management Strategy for 2015/16 in **Section 2.4**, the revised Investment Strategy and Policy at **Appendix 6** for immediate implementation and the prudential indicators and limits described in **Section 2.4** and summarised in **Appendix 7**.

List of Appendices included:

Appendix Number	Title
1	Public Consultation Responses
2	Spending & Savings Proposals
3	Initial Indications of Equality Impacts
4	Summary Revenue Budget
5	Capital Programme 2015/16 to 2019/20
6	Investment Strategy and Policy
7	Prudential 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
24th February 2015

Report title: Budget Report 2015/16

1. Context (or background)

1.1 Overall Context

1.1.1 This report seeks approval for the 2015/16 Revenue Budget and corresponding Council Tax rise, Capital Programme, Treasury Management Strategy and Prudential Indicators. The report includes the 2015/16 Government grant allocation and estimates of the Council's medium term revenue financial position.

1.1.2 The revenue budget proposals in this report follow on from the Pre-Budget Report approved by Cabinet on 2nd December 2014. They have been established in line with the Council's current Medium Term Financial Strategy and Council Plan, the vision for which is for the city to be "Globally connected - promoting the growth of a sustainable Coventry economy, and locally committed - improving the quality of life for Coventry people".

1.1.3 Delivery of the Council Plan continues to be hugely challenging in the light of 2015/16 witnessing Coventry's biggest ever year on year reduction in resources, set out in section 1.2. In the light of this, the proposals within this report mark a radical departure from the current way in which the Council provides many of its services. This is set out within the Customer Journey and City Centre First strategies that were outlined in the Pre-Budget Report which will consolidate the provision of many customer facing services into a smaller number of customer service points and promote more efficient methods of providing transactional services with customers. A key developing strand of policy is to engage with Coventry citizens, community groups and other stakeholders to determine what part they can play in helping to deliver services, helping the Council to move away from some existing service delivery models. Although the Council remains committed to delivering the best services possible, it will need to focus increasingly on protecting the most vulnerable citizens in the city and enabling the best conditions for economic regeneration and investment in the city.

1.1.4 This report's recommendations assume the rejection of the Government's Council Tax Freeze Grant of £1.3m, available if the Council freezes Council Tax at existing levels. Instead the report recommends a Budget that is supported by a rise which approaches the maximum permissible level above which the Council would be required to hold a referendum for its approval. The referendum limit has been set at 2% by Government and the rise recommended in the Council Tax report on today's agenda is 1.9%. The recommended option makes additional resources of £0.6m available to the Council in 2015/16 over and above that on offer through the Council Tax Freeze Grant. In addition, it guarantees permanent Council Tax resources of £1.9m within the Council's tax-base - funding which can help protect services provided to the people of Coventry. Such a rise would be the equivalent of between 30p and 40p per week for a typical Coventry household. Those that receive Council Tax Support (approximately 20% of Coventry households) would not pay any more under this proposal.

1.1.5 In addition to the significant on-going cash reduction in general Government resources for the Council through the Settlement Funding Assessment, further reductions in some specific grants have been set out in recent and previous announcements for 2015/16 including for the Education Services Grant, Housing Benefit Administration Grant, Schools Basic Needs Capital Grant and Local Welfare Provision Grant. Some other grants have increased, largely those available to the city's schools and other grants relating to new burdens. Section 1.2.4 provides more detail.

1.1.6 The Council's Medium Term Financial Strategy and Pre-Budget reports set out the massive national changes affecting the financial and policy landscape for local authorities. At a local level the Council continues to face challenges that include providing robust services for vulnerable children and adults, delivering other vital local services to Coventry citizens and helping to make the city an attractive place for businesses to move to and thrive in. With the Council now being allowed to retain 49% of any future Business Rates growth in the future, the strength and vitality of the local economy will take on increasing significance for core Council funding over the coming years.

1.2 Revenue Resources

1.2.1 The Council's total revenue expenditure is funded from a combination of resources as set out in the table below which includes an analysis of the movement from 2014/15 to 2015/16.

Table1: Resources to Fund the Budget

2014/15 £000s		2015/16 £000s	(Increase)/ Decrease £000s	(Increase)/ Decrease %
(98,788)	A: Council Tax Requirement	(102,171)	(3,383)	(3%)
(56,817)	B: Business Rates (Local Share)	(57,976)	23,531	15%
(102,900)	C: Revenue Support Grant and Top-Up	(78,210)		
(393,217)	D: Specific Grants (see section 3.4) **	(400,339)	(7,122)	(2%)
(71,906)	E: Fees, Charges & Other Income*&**	(80,021)	(8,115)	(11%)
(258,505)	Funding of Net Budget (A + B + C)	(238,357)	20,148	8%
(723,628)	Funding of Gross Budget (A + B + C + D + E)**	(718,717)	4,911	1%

*Line E: Fees and Charges, includes Council Tax and Business Rates Collection Fund surpluses and contributions from reserves.

**Line D, E and Gross Budget: 2014/15 values have been re-stated to allow valid comparisons with 2015/16

1.2.2 The resource projection figures in the table above use the Final Local Government Finance Settlement position for 2015/16. No figures are available for future years and it is only possible to make estimates based on control totals of national expenditure. These will inevitably be subject to matters such as the make-up of the next Government and the performance of the national economy as well as the Council's experience of how the local Business Rates Retention scheme impacts upon the Council's overall resources position. The Council's best estimate of expected resource loss is shown below expressed in the form of the Government's preferred measure, the Settlement Funding Assessment.

Table 2: Coventry's Estimated Settlement Funding Assessment

		2015/16 Final	2016/17 Estimate	2017/18 Estimate
Coventry's Settlement Funding Assessment	£m	**(135.2)**	(119.1)	(110.6)
Decreases on Previous Year	£m	**25.4***	16.1	8.5
	%	**15.8%***	11.9%	7.1%

* This is a higher reduction than the £23.5m (15%) shown in Table 1 above. The analysis in this table reflects the Government's rebased 2014/15 starting point.

1.2.3 The 2010/11 equivalent Settlement Funding Assessment provided £1,627 of funding for every household in the city in 2010/11. Since then, the number of Coventry households has risen (from over 132,000 to more than 137,000) at the same time as overall resources have been cut. The equivalent funding per household figure for 2015/16 is estimated at £989, a fall over the period of £638.

1.2.4 Specific Grants – In overall terms specific revenue grant funding has increased between 2014/15 and 2015/16 from £393m to £400m. Within this, the total level of funding received to fund city schools (including the Dedicated Schools Grant and Pupil Premium Grant) is expected to be £218m, compared with £211m in 2014/15. Housing Benefit Subsidy payments have been estimated at £113m, whilst other significant grants/movements include:

- A Public Health Grant of £19.4m (£0.2m increase)
- Over £11m (c£7m increase) relating to adult social care, driven mostly by the changing relationship between the social care and health sectors and relating to new burdens for the Council. This includes contributions from Coventry and Rugby Clinical Commissioning Group and grants relating to the Care Act, the Independent Living Fund and the Better Care Fund.
- Assumed funding for Adult Education of £6.8m (£0.3m increase)
- New Homes Bonus Grant of £7m (£1m increase, although top-sliced from Government Revenue Support Grant)
- Education Services Grant estimated at £3.6m (£1.5m decrease)
- Grants received in lieu of Business Rates amounting to £2.7m such as Small Business Rates Compensation Grant (£0.2m increase)
- Housing Benefit and Council Tax Administration Grant of £2.1m (£0.2m decrease)
- Troubled Families Grant £1.2m (£0.5m increase) as part of a 5 year £6m programme detailed in the report to Cabinet on 10th February 2015

2. Options considered and recommended proposal

2.1 Section Outline

2.1.1 The remainder of the report details the specific proposals recommended for approval. Section 2.2 below outlines the savings and cost pressures reflected in the proposed budget. Approval is being sought for these and the overall budget and Council Tax Requirement in **Appendix 4**. This is predicated on a City Council Tax rise of 1.9% and rejection of the Government's 2015/16 Council Tax Freeze Grant.

2.1.2 The report seeks approval for a 2015/16 Capital Programme of £118m compared with an initial 2014/15 programme of £149m. The Programme is considered in detail in **Section 2.3** and **Appendix 5**.

2.1.3 The report is also required formally to seek Council approval for the Treasury Management Strategy (**Section 2.4),** the Investment Strategy and Policy **(Appendix 6) and** the Prudential Indicators (**Section 2.4** 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 2nd December 2014 as a basis for Pre-Budget consultation. A line by line impact of how these proposals affect the base budget is given in **Appendix 2** 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 2015/16.

Table 3: Changes to Pre-Budget Report Position

	Appx 2 Line Ref	2015/16 £m	2016/17 £m	2017/18 £m
Pre-Budget Report Position		**1.8**	**12.9**	**15.3**
Change to Government Settlement	1a	(0.6)	(0.6)	(0.6)
Special Education Needs Transport - Abc Review	10a	0.4	0.0	0.0
Council Tax Estimated Outturn & Tax-base	20	0.3	0.3	0.3
Council Tax - Referendum Limit	21	(0.9)	(0.9)	(0.9)
Business Rates Estimated Outturn & Tax-base	22	(0.4)	1.4	1.5
Birmingham International Airport Dividends	22a	(0.3)	0.3	0.5
Overall Resourcing (Early Intervention Grant)	22b	(0.9)	(0.9)	(0.9)
Local Welfare Provision	22c	0.6	0.6	0.6
Charge for, transfer or remove School Crossing Patrols	33	0.0	0.0	0.0
Total		**0.0**	**13.1**	**15.8**

2.2.2 These changes represent:

- 1a and 22c - Government resources for Local Welfare Provision (Community Support Grants) which replace the previous specific grant of £1.4m and which will be used to maintain a local Community Support Grants scheme.
- 10a - A reversal of the proposed £0.4m saving in Special Education Needs Transport for one year to allow further consultation and consideration of service options.
- 20 & 22 – Balancing adjustments to the estimated outturn and tax-base positions including a £0.7m contribution from the Business Rates reserve.
- 21 - The impact of increasing Council Tax by 1.9% - this provides a greater level of resources than the amount assumed at Pre-Budget time when it was assumed that the Referendum Limit set by the Secretary of State for Communities and Local Government might have been as low as 1%.
- 22a - A revised medium term projection for dividends from the Council's shares in Birmingham Airport.
- 22b - The impact of lost Early Intervention Grant assumed within the overall Pre-Budget funding position is less severe than anticipated.
- 33 – It is now proposed that the Council continues to provide school crossing patrols but only on the basis that schools agree to fund the cost of these. A part year-effect produces a re-profiled saving, reduced by c£0.1m for 2015/16, which will be met by reserve funding for one year only, leaving a net nil change overall.

2.2.3 When the impact of these changes is added to the position shown at the Pre-Budget stage, the final net position is as follows and detailed in Appendix 2.

Table 4: Overall Movement in Budget

	2015/16 £000s	**2016/17 £000s**	**2017/18 £000s**
Initial Budget Gap	15,088	44,230	65,030
Changes to Base Position Including Corporate Savings and Unavoidable Cost Pressures	(10,543)	(13,600)	(18,861)
Children's Services Additional Costs	10,000	10,000	10,000
Kickstart, Customer Journey, City Centre First & Workforce Strategy Savings	(7,000)	(13,000)	(25,000)
Place Directorate – Doing Things Differently	(3,275)	(4,175)	(4,675)
People Directorate – Doing Things Differently	(2,100)	(3,650)	(3,650)
Resources Directorate – Doing Things Differently	(2,170)	(6,658)	(7,078)
Final Bottom Line	**0**	**13,147**	**15,766**

2.2.4 Where appropriate, further consultation and equality analyses will be undertaken to now look at the specific proposals before final decisions on the individual proposals are made.

2.3 **Capital Programme**

2.3.1 In **Appendix 5** there are proposals for a Capital Programme of £118m. This compares with the current projected 2014/15 programme of £124m. The proposals include continued very significant investment in highways and public realm works programmes and construction of the Council's new administrative office building in the Friargate Business District.

2.3.2 The 2015/16 Programme requires £42m of funding from Prudential Borrowing, £31m of which relates to the Friargate building and the Coventry Investment Fund. A further £7m relates to non-scheme specific borrowing resulting from spending decisions made in previous years. There is a strong likelihood that non-specific borrowing requirement will be avoided in 2015/16 as a result either of in-year re-profiling of expenditure above the 5% re-scheduling level or as a result of other additional funding being received in-year ahead of the need to spend. Also, the Executive Director of Resources will continue to recommend to members an intention to reduce the overall need to borrow, by applying uncommitted revenue resources or capital receipts as they arise which will reduce capital financing costs over the longer term. In addition, it is intended that close control should continue to be exercised on the approval of any new capital spending commitments in the coming years.

2.3.3 The full programme is detailed in **Appendix 5** with the main items being as follows:

- A total investment of £30m in the City's highways and Public Realm infrastructure. This includes £24m of grant funded works plus a £3m Council funded highways investment programme.
- £20m of planned expenditure on the administrative office building in the forthcoming Friargate Business District and surrounding infrastructure including the Bridgedeck over the ring-road.
- A £16m programme in 2015/16 for Education/Children and Young People relating to investments in schools across the City including continuation of programmes to increase primary school places. This programme is lower than previous programmes reflecting the published reductions in Coventry's Basic Need funding allocations provided by Government.
- Expenditure funded from the Government's Growth Deal and Growing Places funds to support programmes and projects in partnership with the private sector and associated infrastructure schemes to help create economic growth, employment and additional business rates.
- Further spending on the long-term Coventry Investment Fund (CIF) programme of £15 million to stimulate the local economy and create jobs.
- Investment of £8m to progress the Nuckle scheme improving the railway links between Nuneaton and Coventry and completing the new station at the Ricoh Arena planned to be operational in 2015.
- A £2.4m programme of Disabled Facilities Grants.

2.3.4 In addition to the Prudential Borrowing referred to above, the other main sources of funding for the capital expenditure shown above are £59m of Capital grants and £12m of revenue funding and capital receipts. The sources of grant funding are as follows.

Table 5: Capital Grant Funding

	£m
Growth Deal 1	16
Sub-regional & Government funding for the NUCKLE rail project and Highways	12
European Regional Development Fund	9
Education Funding Agency	7
Regional Growth Fund	6
All Other Grants/Contributions	9
Total	59

2.3.5 Some of the risks relating to major projects are outlined in section 5.1.4.7 below and these are relevant to a significant proportion of the Capital Programme. At the time of writing this report, the Council is reviewing a potential affordability gap on several major infrastructure schemes that may require some recasting of the overall highways and Public Realm programmes. It is too early to enable finalisation of the details of this and a forthcoming report to Cabinet and Council will provide an up to date position together with a new bid for external grant funding plus any further solutions that may be required. Whatever the outcome of this, there will be no further call on corporate capital resources to manage these schemes. It is appropriate to raise this matter now due to the proximity of the report, expected in early March, to setting the Council's budget.

2.3.6 **Forecast Capital Programme**

The Programme included has been evaluated to identify the likely realistic profile of spend, to maximise the amount of expenditure against which we can apply grant resources and to maximise the resources available corporately to the Council to fund the Capital Programme.

A summary of the proposed programme including existing commitments and funding sources is outlined below. This includes expenditure rescheduled into 2015/16 as a result of the 2014/15 budgetary control process. Full details of the proposed programme are included in **Appendix 5.**

Table 6: 2015/16 – 2019/20 Capital Programme (Expenditure & Funding)

Expenditure	**2015/16 £'000**	**2016/17 £'000**	**2017/18 £'000**	**2018/19 £'000**	**2019/20 £'000**
Business, Enterprise and Employment	57,369	89,460	24,213	4,935	0
Strategic Finance and Resources	6,629	2,878	2,817	2,817	2,817
Health and Adult Services	2,389	2,389	2,389	2,389	2,389
Education, Children & Young People	17,102	10,500	6,830	10,098	2,678
Public Services	37,186	10,682	8,268	7,673	6,740
Culture, Leisure, Sports & Parks	3,266	9,288	12,408	12,408	1,671
Community Development, Co-operatives & Social Enterprise	100	0	0	0	0
Total Approved Programme	124,041	125,197	56,925	40,320	16,295
Allowance for Rescheduling	(6,202)	(368)	3,395	1,000	1,251
Programme after Rescheduling	117,839	124,829	60,320	41,320	17,546

Funding	**2015/16 £'000**	**2016/17 £'000**	**2017/18 £'000**	**2018/19 £'000**	**2019/20 £'000**
Prudential Borrowing	42,570	66,637	23,973	12,935	2,065
Grants & Contributions	62,724	47,526	28,442	19,557	8,527
Capital Receipts	1,100	2,100	775	1,600	0
Revenue Contributions	11,265	7,214	6,850	6,850	6,850
Leasing	180	1,352	280	378	104
Total	117,839	124,829	60,320	41,320	17,546

2.3.7 Other significant Schools capital work programmes are excluded from the Programme and will be the subject of future reports to members. Between 2018 and 2022 the Council will need to expand secondary schools by the equivalent of up to 22 forms of entry to meet rising demand for places and support delivery of the City's Special Educational Needs Broad Spectrum policy where suitable facilities for a further primary and secondary broad spectrum school are required. In addition, 7 replacement schools are being funded as part of the Government's Priority School Building Programme (PSBP) and are being delivered by the Education Funding Agency outside of the Council's Capital Programme. This will address some of the worst condition schools in the City although significant condition issues still exist across the City's school estate primarily driven by the age and construction type of buildings. The Council was unsuccessful in attracting any funding for the 12 schemes that were submitted under PSBP2.

2.3.8 The Coventry and Warwickshire Local Enterprise Partnership has agreed an expansion to its Growth Deal with the Government which will see an extra £15.3m invested in Coventry and Warwickshire between 2016 and 2021. This is in addition to the £74.1m of funding committed by the Government on 7 July 2014. This funding will be used over the lifetime of its Deal (2015-2021) to create up an estimated 4000 new jobs, 1400 new homes built and the potential to generate £220m public and private investment. Currently, the Capital Programme is including up to £53m of the Growth 1 allocation over the next 5 years, while clarification is sought of the overall value out of the initial £74.1m that will be channelled through the Council. This includes an indicative cash-flow based on the anticipated payment profile and will require to be updated as projects profiles and the flexibility conditions of the funding are finalised.

The Growth 2 funding of £15.3m is currently not included in the 5 years programme as the Council is currently unaware of the exact cash-flow and the value to be paid to the Council. It is anticipated that some of these funds may be paid direct to the Sponsor Promoter. Both Growth 1 and Growth 2 will be updated in the programme as part of quarterly monitoring.

2.3.9 The programme includes an on-going 5% allowance for the rescheduling of expenditure between years with an adjustment shown at a corporate programme level. This recognises the potential benefits of maintaining a degree of flexibility through the year and the fact that the Council is often faced with rescheduling due to factors outside its control. Any potential new demands that arise over time as new initiatives are identified will need to be subject to rigorous review to balance their priority and affordability. The Council will continue to re-evaluate the future Capital Programme taking into account economic circumstances, its ability to generate capital receipts and the profile of other areas of significant investment that it manages.

2.4 Treasury Management

2.4.1 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.

2.4.2 In addition, authorities are required to set out:

- An Investment Strategy and Policy detailing out how investment risk is managed (**Appendix 6**);
- 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 2.4.6)**.

2.4.3 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

2.4.4 Interest Rate Forecast - In the current economic conditions it is expected that base rate (currently 0.5%) will begin to rise in the second half of 2015, with a gradual pace of increases thereafter. The average for 2015/16 is expected to be around 0.75%. Interest rates are predicted to stay at a much lower lever than they have been historically, with the new norm being around 2.5%. The impact of a low base rate is that shorter term borrowing costs and investment returns remain low. Longer term interest rates, for capital programme borrowing through the Public Works Loans Board (PWLB), are influenced by other factors, in particular the price of UK government gilts. During 2014/15 longer term PWLB rates have been in the region of 3.7% to 4.5%. Longer term rates are variable and are set by the PWLB twice a day. Arlingclose, the City Council's treasury advisers, provide regular interest rate forecasts and commentaries.

2.4.5 Borrowing - Based on current estimated levels of spend the expected long term debt position of the authority at 31st March 2015 is as follows:

Table 7: Estimated Long Term Borrowing at 31st March 2015

Type of Debt	Total £m
PWLB	221.3
Money Market Loans	59.0
Stock Issue	12.0
Transferred Debt (other authorities)	17.4
PFI, Finance Lease & Other	71.1
Total Long Term Liabilities	**380.8**

The main funding sources currently used by Coventry are:

- The Public Works Loans Board (PWLB) or its successor - 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 £58m 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 – 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 and other institutions authorised by the Prudential Regulation Authority.

Given the revenue budget and associated capital programme outlined in this report, the estimated underlying borrowing requirement for the City Council for each of the capital programme years from 2015/16 is summarised below:

Table 8: 2015/16 Borrowing Requirement (excluding PFI & finance leases)

Underlying Borrowing Requirement	2015/16 £m	2016/17 £m	2017/18 £m
New funds to finance the Capital Programme	42.6	66.6	24.0
Minimum Revenue Provision (debt repayment provision)	(13.1)	(14.8)	(17.3)
Forecast increase in borrowing requirement	**29.5**	**51.8**	**6.7**

This implies a significant increase in the Council's need to borrow over the coming years due to previous decisions taken by Council on schemes such as the Coventry Investment Fund and Friargate for instance. Given the likely reduction in the level of City Council investment balances, this will increase the likelihood that the City Council will need to undertake some longer term borrowing during the coming year and beyond.

Issues that the City Council will take into account in its approach to borrowing 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.

In the light of forecast interest rates, the objectives underpinning the Treasury Management Strategy and the forecast borrowing requirement for 2015/16 and future years, the Executive Director Resources will undertake the most appropriate form of borrowing depending on prevailing interest rates at the time.

2.4.6 Minimum Revenue Provision - Local authorities are required to make prudent provision for the repayment of long term capital programme borrowing through a revenue charge (the Minimum Revenue Provision or 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. the life of an asset purchased or built.

Capital Finance Regulations (SI 2008/414) require the approval of an MRP Statement setting out the authority's approach. It is proposed that the existing policy continues:-

- For capital expenditure incurred before 1st April 2008 or which in future will be Supported Capital Expenditure, the Council will follow existing practice, the so called "Regulatory Method", with MRP broadly based on 4% of the underlying Capital Financing Requirement adjusted for the Adjustment A;

- 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 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.

2.4.7 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 fall in future years as capital programme spend is incurred and existing borrowing matures for repayment.

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 and the government, largely for fixed durations and rates of interest. During 2014/15 the amount held in these investments has ranged between £50m - £90m;

- 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 2014/15 the amount held in these investments has ranged between £23m and £45m.

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. This will have an even greater effect on the authority in the near future when new guidance comes in which will make Local Authority unsecured investments 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 further diversify into more secure assets classes.

The Council's proposed Investment Strategy and Policy (**Appendix 6**) 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, the emergence of "bail in" risk and the likely reduction in the level of investment balances it is proposed that:

a) the maximum limit for unsecured investments with individual counterparties will stay at £8m. However, for secured investments which are not subject to "bail in", the maximum limit will be £16m. These limits were established through advice from the Council's treasury advisors using its maximum investment balance for the year, including investments temporarily used to meet cashflow needs (total £160m). 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 BBB+ or better and are recommended as a suitable counterparty by our treasury advisors.
c) non-credit rated building societies are included on the counterparty list as an unsecured bank deposit with no credit rating with a £1m investment limit. An unrated building society 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 £8m 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.

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) Credit rating agencies will soon no longer be including government support in banks' credit ratings. This means several institutions could become BBB+ rated. Therefore, subject to advice from the Council's treasury advisors, BBB+ rated institutions will be considered a suitable counterparty, with any investments in counterparties with a rating of BBB+ being classified as non-specified investments subject to a total limit of £32m.

g) Registered providers are now included on the counterparty list with an £8m 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.

h) 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 £5m.

Separately, the City Council holds investments or provides loans for operational or policy reasons, for example, in order to stimulate economic development and growth. Such operational investments and loans will be assessed and reported on, on a case by case basis. This will include a full assessment of the risk, including credit risk, and how this will be managed.

The development of the Coventry Investment Fund, with the drive for economic growth at its heart, is a prime example of such an initiative. An investment board makes decisions on which projects to invest in with delegated responsibility from Council and Cabinet. A risk assessment for each project is performed and this is taken into account as part of the due diligence process. The fund also has an evaluation process that considers the following criteria:

- Business Rate Growth/Return on Investment
- Strategic Fit to Council's Vision and Aspirations
- Deliverability
- Jobs Created

2.4.8 Treasury Management Advisors - The authority employs Arlingclose consultants 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 consultants provide a vehicle through which quality is managed. In addition, within the City Council, senior managers within the Resources Directorate meet on a periodic basis to review treasury issues, including the use of consultants.

2.4.9 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.

2.4.10 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 7** indicators 1 and 2 highlight the revenue impact of the proposed capital programme. These show 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 13.16% in 2014/15 to 19.06% in 2017/18. This increase reflects the combined effect of significant investment under PFI contracts and increased levels of prudential borrowing funded spend within the capital programme. In addition, the impact on a Band D Council Tax of the current proposed programme compared to the programme approved last year is set out in indicator 2. This also shows an increase to 2017/18 for broadly the same reasons.

Capital and Treasury Management Related Prudential Indicators
These indicators, set out in **Appendix 2**, include:

- Authorised Limit (Indicator 6) - 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 7) - 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 3) - 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 2015/16 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, which replaces the previous indicator based on net debt, 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 10, 11 & 12) - 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 11, Maturity Structure of Borrowing, includes a limit of 40% (previously set at 30%) 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 called for repayment.

- Other indicators highlight Planned Capital Spend (Indicator 4), Actual Debt at 31st March 2013 (Indicator 8) and the adoption of the Treasury Management Code (Indicator 9).

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 of the changes required.

2.4.11 Leasing - The City Council uses operating leases for non-fixed plant and equipment and the Capital Programme includes £0.2m of spend to be resourced from leasing in 2015/16. Leasing will only be used where this is value for money compared with other forms of funding, such as unsupported borrowing.

3. Results of consultation undertaken

3.1 The proposals in this report have been subject public consultation ending on the 27th January 2015 including separate meetings with the Trades Unions. The details arising out of this consultation period are reported in **Appendix 1.** The feedback from the consultation shows that the Council's priorities for growing the city and protecting the most vulnerable were clear and supported. There were significant concerns over the level of savings outlined in the budget proposals. The biggest issue raised was the lack of detail available around the City Centre First strategy upon which to comment. There was also concern over the potential impact on local neighbourhoods as well as the potential closures of libraries, community centres and youth facilities. A total of seven petitions were registered during the consultation period and further information about these is included in Appendix 1. The Council will need to consider where appropriate its plans to inform, involve, consult and engage with all interest groups once the more detailed proposals are available.

3.2 The changes that have been made between the Pre-Budget Report and this report are detailed in **Section 2.2.1.**

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 2015. A number of the proposals including Kickstart, Customer Journey and City Centre First are more strategic in their nature and will be implemented over a longer time-scale. The proposed profile of these savings is set out in Appendix 2.

5. Comments from Executive Director, Resources

This report is concerned wholly with financial matters. The proposals within this report represent the basis of the Council's 2015/16 revenue and capital budget supported by the Council Tax Report that will be considered alongside this one.

5.1.1 <u>Financial implications - Medium Term Position</u>
This budget produces a balanced position for 2015/16. However, the Government has indicated that funding reductions will continue and as a result, current projections for 2016/17 and beyond remain extremely challenging. The years beyond 2015/16 hold significant uncertainty because they will be marked by a new Spending Review within a new parliamentary term but the Council's best estimate is that resources will continue to reduce on a trajectory that is broadly similar to recent years. The best estimate of the overall future resource position plus what we know about the Council's current spending plans and the decisions within this report are reflected in the Table below.

Table 9: Projected Medium Term Financial Position

	2016/17 £m	2017/18 £m
Total Spending after applying fees, charges and specific grants	241.0	236.6
Resources from general government grant, Council Tax and retained Business Rates	(227.9)	(220.8)
Anticipated Budget Gap	**13.1**	**15.8**

5.1.2 Financial Implications – Reserves

The Local Government Act 2003 requires the Chief Financial Officer (the Executive Director of Resources) 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 2015/16 will not be known until finalisation of the 2014/15 accounts and reserve levels will be reviewed at that time. The Council's total reserve balances of £81m at the end of 2013/14 are set out in the table below. Of the overall balance, £18.5m belongs to schools and are outside the Council's control. Explanations for the remaining balances were set out in some detail in the Council's Financial Outturn Report considered by Cabinet in June 2014.

Table 10: Summary of Reserve Movement in 2013/14

	Opening Balance 1st April 2013 £m	Movement In year £m	Closing Balance 31st March 2014 £m
Other Earmarked Reserves	(34.8)	(15.1)	(49.9)
Capital Reserves	(5.6)	3.6	(2.0)
Insurance Fund	(4.1)	0.8	(3.3)
Schools Reserves	(19.4)	0.9	(18.5)
General Fund Reserves	(7.3)	0.0	(7.3)
Total Reserves	**(71.2)**	**(9.8)**	**(81.0)**

The level of reserves has been one of the key points raised in the Budget consultation exercise, with some respondents suggesting that the Council should use reserve balances instead of making savings in services. However, 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.

The Council's external auditors, Grant Thornton, have expressed the view that the level of the Council's General Fund reserves remains low and that this should continue to be an area that is kept under review. In addition, analysis provided by the Local Government Association shows that Coventry has a relatively low level of reserves as a proportion of its net expenditure level when compared with all other Councils (28% giving it a ranking of 251 out of 353 local authorities or 15 out of 36 Metropolitan Districts). The recent report of the House of Commons Public Accounts Committee has noted that late, short-term, local government funding settlements, combined with the introduction of incentive-based funding mechanisms such as Business Rates retention, has increased uncertainty for local authorities over future funding which has led to many adding to their reserves as a hedge against future events.

Taking all this into account, it is the view of the Executive Director of Resources that overall levels are adequate to support the recommended budget for 2015/16 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 many 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 2015/16 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 the remainder have been brought together and are scrutinised by the Strategic Management Board in order to ensure the best use possible for the corporate objectives of the authority.

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 Executive Director of Resources 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 Directorate Management Teams and its Strategic Management Board have been fully involved in the detailed make-up of the information included in the policy and financial planning process.

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 scale of savings targets incorporated in the 2015/16 budget and the challenges facing the Council in the next few years is unprecedented and will require regular monitoring and potentially corrective action.

5.1.4 <u>Financial Implications - Budget Risks</u>

5.1.4.1 It is important that Directorate budgets are set within the guiding principle of trying to achieve the maximum benefit from the resources available. This includes consideration of the risks to ensure that budgets and reserves are set at appropriate levels. The Authority carries some inevitable risks in agreeing the budget, and the major financial ones for the coming year are set out in summary below. Where appropriate these risks are included within either corporate or directorate based risk registers and will therefore be monitored through existing processes for managing risk or through on-going budgetary control processes. However the challenges set by the range of new strategic savings programmes mean that the risk of overspending in individual areas continues to be very real and will require specific monitoring action in 2015/16. A range of issues will be kept under review during the year to help deal flexibly with any problems that may arise, such as efforts to reduce the Council's debt management and cash flow costs.

5.1.4.2 **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:

a) That new resources are used effectively to deliver corporate objectives. Operational management arrangements and quarterly monitoring reports will address this issue specifically,

b) That on-going spending and income are 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,

5.1.4.3 **Children's Social Care Services –** This area continues to face significant challenges, some of which are reflected by the proposals in this report. The volume of cases and the cost of care for looked after children and for safeguarding other children and young people who cannot otherwise live safely with their families continues to represent a large service and budget pressure. Given that the Council has only partial influence over these volumes there is no guarantee that the resources identified for this area will be sufficient in 2015/16 although the Council's best estimate is included within the budget.

In the longer term, the cost represented by this service area is not sustainable for a city of Coventry's size and it is essential that safe and secure methods are found to deliver services to children within a more proportionate cost envelope.

5.1.4.4 **Kickstart, Customer Journey and City Centre First –** The relocation of most of the Council's office based services into the forthcoming Friargate building and new Customer Services Centre will create a platform for the Council to implement new ways of working, and maximise the use of technology. This will improve efficiency, enable customers to undertake transactions via more efficient channels and reduce demand for Council services. The City Centre First strategy will result in Council services being delivered out of far fewer properties, by a smaller workforce and (in certain specific services), delivered to a smaller number of service recipients or customers. Savings linked to these projects will amount to £7m in 2015/16 rising to £25m over the medium term. In addition, savings from previously approved abc reviews increase in value by £12m in 2015/16. If these strategies are not managed successfully and implemented in the planned timescale, this will be a significant future financial risk.

5.1.4.5 **Health and Adult Social Care –** This area continues to operate within a very dynamic environment at a time when social care services for older and vulnerable adults are the subject of cost pressure across the country as a result of demographic factors. Amongst other things this includes:

- The A Bolder Community Services review which is still on target to deliver a further £7m of savings beyond 2014/15.
- The need for successful partnership working with the health sector delivered in large part through the Better Care Fund.
- Changes resulting from the Care Act including eligibility criteria and assessment protocols for people who need care and support and their carers.
- Some overlap with the Council's Public Health service.
- The knock-on impact of national Welfare Reform changes (the impacts of which include reductions in benefit levels for some people and potentially more dependency on Council services of last resort).

5.1.4.6 **Local Government Finance Changes** – From April 2013 local councils have been able to retain the benefit of 49% of any increase in Business Rate income. This and other changes to funding streams (the Care Act, Better Care Fund, national welfare and benefit provisions, Council Tax Support, Local Welfare Provision) that transfer risk from central to local government, increase the potential volatility in local council bottom lines and require the Council to include some necessarily prudent assumptions in order to anticipate adverse fluctuations in these areas. In addition, the trend for Local Government finance will reduce the reliance upon central government funding and towards locally generated funding sources in the future and the Council will need to continue to secure its Business Rates base through the initiatives such as the Coventry Investment Fund to help ensure that the Coventry is well placed to demonstrate that it is a city that is open for business.

5.1.4.7 **Major Projects –** The Council is involved in a number of major projects and more than usually complex financial transactions that give it some exposure to a degree of financial and reputational risk. These include projects such as:

- Friargate – The building of a brand new office block and work with an external development agency to regenerate a new business district.

- The Nuckle project to improve local rail connections, now progressing and moving in to Phase 2 and the development of the Station Masterplan (Cabinet 3rd March 2015)
- The Coventry Investment Fund to support local developments and business initiatives, mostly with private sector partners.
- Working with local partners including the Local Enterprise Partnership and involving initiatives such as the Growth Deal and Growing Places to invest in business, regeneration and infrastructure locally.
- A range of significant highway and city centre infrastructure projects including the Friargate Bridgedeck and the Whitley bridge
- Financial arrangements made on commercial terms to help support local organisations and businesses (City College, the Ricoh Arena loan, Coombe Abbey Hotel)

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.

5.1.4.8 **Pensions –** The Council faces inevitable but non-quantifiable increases in past service pension costs over the medium term which, as the Council becomes smaller, threaten to become a massive burden relative to the size of the overall budget. It is important that the Council continues a dialogue with the West Midlands Pension Fund on keeping a sustainable long-term view on recovery of past service pension deficits. It is also important to explore other mechanisms to address this problem alongside the pensions industry, the local government sector and national government.

5.2 Legal implications

This report reflects the Council's statutory obligations in setting a balanced budget. The report also meets the duty to report to the Council on the robustness of the estimates provided and the adequacy of the financial reserves in place in line with Section 25 of the Local Government Act 2003. The Public Sector Equality duty under section 149 of the Equalities Act 2010 requires that decision makers must have on-going due regard to avoid discrimination and advance opportunities for anyone with the relevant protected characteristics. Due regard requires more than just an awareness of the equality duty, it requires rigorous analysis by the public authority, beyond broad options.

6. Other implications

6.1 How will this contribute to achievement of the Council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / Local Area Agreement (or Coventry Sustainable Community Strategy)?

The Council, in common with all local authorities, will continue to be faced with challenging resource constraints over the coming years, which will inevitably have an increasing impact on front-line services. However, 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 pre budget proposals are aligned to existing policy priorities.

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 the savings that will be included in the Council's bottom line budget position are such that they represent a significant risk of non-achievement in the future. The savings programmes set out within this report will 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 size of the revenue gap to be managed means that the Council will have to change radically to meet the challenges that it faces, both in terms of the way it works and the services it provides. The very large savings included within this report will be met largely from savings in employee budgets. The Council has already begun a new Early Retirement and Voluntary Redundancy programme following approval on 9th September 2014 with a broad plan to reduce employee numbers by c1,000 over three years. Reduced employee numbers across the Council plus the need to do things differently and a new focus on the City Centre will further accentuate the importance of new ways of working under Kickstart and will change the nature of the services provided, and the way the Council works.

6.4 Equalities / EIA

In order to evaluate the impact of the Budget on protected groups, the Council has looked across all major areas of review. Equality analysis is underway for Kickstart, City Centre First and the Workforce Strategy proposals through individual Equality and Consultation Analyses (ECAs). The detailed impact of these programmes will be considered by elected members at the appropriate stages of subsequent decision making for the individual projects. However, initial indications of any positive or negative impact for these areas, alongside other planned savings (listed under Doing things Differently) have been detailed in Appendix 2. From this table it can be seen that Older People and Disabled people are the groups most likely to be impacted upon by planned areas of work, both positively (through Kickstart) and negatively (through changes to Adult Social Care and work on City Centre First). Young people and looked after children will benefit from the investment in Children's Services. As more detailed consideration is given to proposals in Appendix 2 where appropriate further equality impacts will be considered to inform decision making.

6.5 Implications for (or impact on) the environment

No specific impact.

6.6 Implications for partner organisations?

It is anticipated that the City Centre First proposals could prompt a range of different working arrangements with the City Council's partners. These could range from partners sharing Council premises or taking on buildings formerly owned by the Council to delivering a greater range of services in partnership with, on behalf of or instead of the Council. There is also a specific proposal to reduce the level of grant funding provided by the Council compared with historical levels and this will affect a number of the Council's partners for whom funding could be reduced or ended. This report commits the

Council to the over-arching savings detailed in Appendix 2 although the specific details will emerge as individual reviews are undertaken.

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