Coventry City Council

Public report
Cabinet Report

Cabinet	23 February 2016
Council	23 February 2016

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 2016/17

Is this a key decision?
Yes - The report sets the Council's Revenue Budget for 2016/17 incorporating revenue spending and savings decisions for 2016/17 and future financial years and the Capital Programme for 2016/17 to 2019/20.

Executive Summary:

This report follows on from the Pre-Budget Report approved by Cabinet on 26th November 2015 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 2016/17 incorporating the following details:

- Gross budgeted spend of £693m (£26m and 4% lower than 2015/16).
- Net budgeted spend financed by Revenue Support Grant, Council Tax and local Business Rates of £233.4m (£7m and 3% lower than 2015/16).
- A Council Tax Requirement of £110.8m (£8.6m and 8% higher than 2015/16), reflecting a City Council Tax increase of 3.9% detailed in the separate Council Tax Setting report on today's agenda.
- A Capital Programme of £117m (£3m and 2% more than the latest estimated 2015/16 programme) including expenditure funded by Prudential Borrowing of £70m;
- A Treasury Management Strategy, incorporating the Minimum Revenue Provision policy.

The allocation of Government funding for 2016/17 was confirmed in the Local Government Finance Settlement announced on 8 February 2016. The Settlement signals a continued reduction in local government funding over the next 4 years with a planned reduction of £40m in Coventry's Settlement Funding Assessment – the sum of Revenue Support Grant, Top-Up Funding and an estimate of Coventry's local share of Business Rates.

In previous years the City Council has had the flexibility to increase Council Tax by up to 2% without holding a local referendum on the matter. The Pre-Budget Report was approved on the basis of consulting on a Council Tax rise of 1.9%. In recognition of the increasing pressure on Adult Social Care (ASC) services across the country the Government have increased this flexibility by a further 2%, up to a maximum of 4%. The recommended Budget within this Report assumes the taking up this additional 2% flexibility in order to increase the resources available to fund ASC services in the city. As a result, the budget is being proposed on the basis of increasing Council Tax by 3.9%. This proposed increase will be the equivalent of between 70 and 80p per week for a typical Coventry household.

The overall Budget in this report reflects reductions in Government funding that had already been anticipated and savings programmes that were approved as part of 2015/16 Budget Setting. Going into 2016/17 Budget Setting the Council faced a financial gap of £13m and new financial pressures of £10m have emerged since, in particular in relation to Adult Social Care. These have been balanced by higher than planned resources available to the Council, as well as a series of savings options to balance the budget. Overall the report incorporates a package of changes that allows the Council to continue to deliver its key policies, as set out in the Council Plan.

Despite the financial pressure it faces the Council is maintaining an ambitious approach to investing in the City. The proposed Capital Programme amounts to £117m in 2016/17 and includes major schemes such as the Friargate and the City Centre Leisure facility developments, and Coventry Station Master Plan.

The annual Treasury Management Strategy, incorporating a revised Minimum Revenue Provision policy, is also proposed, covering the management of the Council's investments, cash balances and borrowing requirements.

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 2016/17 revenue budget of **£693m** 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 Executive Director of Resources' comments confirming the robustness of the budget and adequacy of reserves in **Section 5.1.3 and 5.1.2.**

(4) Approve the Capital Programme of £117m for 2016/17 and the future years' commitments arising from this programme of £170m between 2017/18 to 2019/20 detailed in **Section 2.3** and **Appendix 4**.

(5) Approve the proposed Treasury Management Strategy for 2016/17 in **Section 2.4,** incorporating the revised Minimum Revenue Provision policy, the revised Investment Strategy and Policy at **Appendix 5** for immediate implementation and the prudential indicators and limits described in **Section 2.4.11** and summarised in **Appendix 6**.

List of Appendices included:

Appendix Number	Title
1	Public Consultation Responses
2	Spending & Savings Proposals
3	Summary Revenue Budget
4	Capital Programme 2016/17 to 2020/21
5	Investment Strategy and Policy
6	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
23rd February 2016

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Report title: Budget Report 2016/17

1. Context (or background)

1.1 Overall Context

1.1.1 This report seeks approval for the 2016/17 Revenue Budget and corresponding Council Tax rise, Capital Programme, Treasury Management Strategy and Prudential Indicators. The report includes the 2016/17 Government grant allocation and estimates of the Council's medium term revenue financial position. For the first time the Government has outlined an indicative 4 year funding position for local government, agreement on which will be the subject of further announcements by Government.

1.1.2 The revenue budget proposals in this report follow on from the Pre-Budget Report approved by Cabinet on 26th November 2015. They have been established in line with the Council's current Medium Term Financial Strategy and Council Plan,

1.1.3 In December the Government announced the provisional Local Government Finance Settlement for 2016/17 to 2019/20. This signalled a continuation of public sector spending reductions up to at least 2020, when the Government has targeted a Budget surplus.

1.1.4 Resources available to Coventry have fallen by c£80m over a four year period to 2015/16 and the Settlement Funding Assessment for Coventry announced in December shows annual reductions to 2019/20 with a total further fall of £40m over the coming four years.

1.1.5 In previous years the City Council has had the flexibility to increase Council Tax by up to 2% without holding a local referendum on the matter. The Pre-Budget Report was approved on the basis of consulting on a Council Tax rise of 1.9%. In recognition of the increasing pressure on Adult Social Care (ASC) services across the country the Government have increased this flexibility by a further 2%, up to a maximum of 4%. The recommended Budget within this Report assumes taking up this additional 2% flexibility in order to increase the resources available to fund ASC services in the city. As a result, the budget is being proposed on the basis of increasing Council Tax by 3.9%. Council Tax Freeze Grant is no longer available for authorities that choose to freeze Council Tax in 2016/17 and beyond.

1.1.6 The Government is currently consulting on changes to the New Homes Bonus Grant. As well as proposed changes to the scheme's distribution methodology the key change will be a reduction in the amount allocated to New Homes Bonus nationally in future years with the relevant resources being used notionally to fund the Better Care Fund. Notwithstanding the consultation outcome, future reductions in Coventry's New Homes Bonus have been built into the medium term position within this report. In a further change, national funding in respect of the Care Act has been transferred into in the Settlement to replace a previous specific grant. This amounts to £2m for 2016/17 and will be applied to spending that was previously funded by the grant.

1.1.7 Separate from the Settlement, the Government had previously announced that the scheme under which local authorities retain 49% of business rates raised locally will be extended by 2020 to 100% of business rates. This will substantially increase the proportion of local authority income that is raised locally. However, the initial expectation is that any such increase will be required to fund services in the future that are currently paid for by other resources such that the Council is unlikely to be better off in total.

1.1.8 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 2016/17. Section 1.2.4 provides more detail.

1.1.9 The Council's Medium Term Financial Strategy and Pre-Budget reports, considered in November 2015 by Council and Cabinet respectively, set out the national and local context in which the budget is set, as well as the policies that that underpin the Council financial plans.

1.1.10 In May 2015 the Council's Cabinet agreed in principle to create a combined authority with other local councils with the aim of facilitating collaboration and joint working to improve economic development, regeneration and transport in the region. In October, Coventry City Council and the other six West Midlands Metropolitan District Councils approved a scheme document, which provides the legal basis for the establishment of a Combined Authority. Following the publication of the scheme document a devolution deal statement of intent was signed by the Leaders of the seven constituent councils and the three relevant Local Enterprise Partnership Chairs in November. The proposed devolution deal is dependent on approval by each constituent authority and if approved could represent a funding package totalling £8bn. The Combined Authority is due to be established in 2016/17 and will affect some of the budgeting arrangements of its member authorities in future. However, there are no clear details of these changes at present and the Council's 2016/17 Budget Setting proposals have not been affected significantly by the impending Combined Authority implementation. The only exceptions to this are the proposed £0.5m contribution to the set–up and running costs of the authority detailed in Appendix 2 line 17 and the potential change to its treasury and MRP policies set out in Section 2.4.

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:

Table1: Resources to Fund the Budget

2015/16 £000s		**2016/17 £000s**	**(Increase)/ Decrease £000s**	**Increase/ (Decrease) %**
(102,171)	**A: Council Tax Requirement**	**(110,817)**	**(8,646)**	**8%**
(57,976)	**B: Business Rates (Local Share)**	**(58,447)**	**15,633**	**(11%)**
(80,221)	**C: Revenue Support Grant and Top-Up****	**(64,117)**		
(398,328)	**D: Specific Grants (see section 3.4) ****	**(380,187)**	**18,141**	**(5%)**
(80,021)	**E: Fees, Charges & Other Income***	**(79,074)**	**947**	**(1%)**

(240,368)	**Funding of Net Budget (A + B + C)**	**(233,381)**	**6,987**	**(3%)**

(718,717)	**Funding of Gross Budget (A + B + C + D + E)****	**(692,642)**	**26,075**	**(4%)**

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

**Line C, D and Funding of Net Budget: 2015/16 values have been re-stated to allow valid comparisons with 2016/17 to take account of Care Act funding being switched into the Revenue Support Grant.

1.2.2 The resource projection figures in the table above use the Final Local Government Finance Settlement position for 2016/17. For the first time the Government has set out four year figures for each local authority's Settlement Funding Assessment:-

Table 2: Coventry's Settlement Funding Assessment

		2016/17	2017/18	2018/19	2019/20
Coventry's Settlement Funding Assessment	£m	(121.6)*	(110.1)	(103.6)	(97.3)
Decreases on Previous Year	£m	15.7	11.5	6.5	6.3
	%	11.4%	9.5%	5.9%	6.1%

* This is lower than the combined total of items B and C shown in Table 1 above which reflects an updated estimate of Business Rates income. The analysis in this table reflects notional Government predictions of Business Rates.

1.2.3 The 2010/11 equivalent Settlement Funding Assessment provided £1,642 of funding for every household in the city in 2010/11. Since then, the number of Coventry households has increased as overall resources have been cut. The equivalent funding per household figure for 2016/17 is estimated at £887, a fall over the period of £755.

1.2.4 Specific Grants – In overall terms specific revenue grant funding has decreased between 2015/16 and 2016/17 from £398m to £380m. 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 £189m, compared with £210m in 2015/16. Housing Benefit Subsidy payments have been estimated at £114m, whilst other significant grants/movements include:

- A Public Health Grant of £23.1m which includes £5.4m for the recently introduced new burden of 0-5 Public Health commissioning but otherwise represents a £0.5m or 2.3% cut from the revised 2015/16 grant.
- Over £12m relating to adult social care, similar to 2015/16 levels, driven mostly by the changing relationship between the social care and health sectors and including grants relating to the the Independent Living Fund and the Better Care Fund (BCF). Previous grant funding of c£2m relating to the Care Act has now been incorporated into the overall grant settlement from Government.
- Assumed funding for Adult Education of £5.6m (£1.2m decrease)
- New Homes Bonus Grant of £9.4m (£2.3m increase)

- Education Services Grant estimated at £3.6m (£0.3m decrease)
- Grants received in lieu of Business Rates amounting to £2.3m such as Small Business Rates Compensation Grant (£0.4m decrease)
- Housing Benefit Administration Grant of £1.5m (£0.1m decrease) and Discretionary Housing Payment grant of £0.8m.
- Troubled Families Grant £1.2m (no change).

Due to the ongoing delays in the finalisation of the national BCF guidance for 2016/17, the existing Better Care Fund Programme will be rolled forward into the new year. Any subsequent in year changes to the programme will be reported accordingly.

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, with the detail provided in **Appendix 2.** 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%, reflecting a 1.9% "base" rise plus 2% in respect of Adult Social Care.

2.1.2 The report seeks approval for a 2016/17 Capital Programme of £117m compared with an initial 2015/16 programme of £118m. 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 Investment Strategy and Policy **(Appendix 5) and** the Prudential Indicators (**Section 2.4.11** and **Appendix 6**).

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 26th November 2015 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 2016/17.

Table 3: Changes to Pre-Budget Report Position

	Appx 2 Line Ref	2016/17 £m	2017/18 £m	2018/19 £m	2018/19 £m
Pre-Budget Report Position		**2.3**	**9.7**	**27.6**	**43.0**
Revenue Support Grant Resources	1	(2.3)	(0.2)	(8.1)	(12.4)
New Homes Bonus	1a	(1.5)	(1.5)	2.1	2.3
Council Tax Base	3	0.4	0.4	0.3	0.3
Council Tax – 2% Social Care	4a	(2.1)	(4.4)	(6.9)	(9.5)
Inflation Contingencies	6	0.4	0.7	1.0	1.4
Adult Social Care	13	2.1	4.4	6.9	9.5

Combined Authority Contribution	17	0.5	0.5	0.5	0.5
Integrated Transport Authority	18	0.2	0.0	(0.2)	(0.2)
Apprenticeship Levy	19	0.0	0.9	0.9	0.9
Total Budget Gap		**0.0**	**10.5**	**24.1**	**35.8**

2.2.2 These changes represent:

- 1 & 1a – The original planning estimates have been revised.
- 3 – The final Tax-base position reported to Cabinet in January 2016 reduced the overall level of benefit by £0.5m compare to the pre-budget position.
- 4a & 13 – The proposed additional 2% Council Tax charge to resource the associated growing Adult Social Care costs.
- 6 – Payment of the Living Wage, at £8.25 per hour from 2016/17, as determined by the Living Wage Foundation.
- 17 – Proposed funding of the development of West Midlands Combined Authority proposals ahead of its establishment in 2016/17.
- 18 – Updated ITA levy reflecting Coventry's larger proportionate population across the West Midlands and savings in later years above those planned.
- 19 - Levy of 0.5% of the pay bill to be applied by Government to larger organisations to fund Apprenticeship schemes.

2.2.3 The proposed Combined Authority is due to be established during 2016/17. It is expected that there will be initial costs of preparing for and operating the Combined Authority, which the seven Metropolitan district councils will need to meet as its Constituent Members. It is proposed that each authority will include £500,000 in their budgets to provide for such potential revenue costs and to enable the Combined Authority to move quickly into implementing its programme. The actual initial budget for the Combined Authority will be agreed in due course and it is expected that the Combined Authority will be able to raise its own revenue resources from 2017/18 onwards.

2.3 Capital Programme

2.3.1 In **Appendix 4** there are proposals for a Capital Programme of £117m. This compares with the current projected 2015/16 programme of £114m. The proposals include continued very significant investment in highways and public realm works programmes, construction of the Council's new administrative office building in the Friargate Business District and Coventry station master plan.

2.3.2 The 2016/17 Programme requires £70m of funding from Prudential Borrowing, £31m of which relates to the Friargate building. A further £10m 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 2016/17 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 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 to ensure that the Council minimises the level of new unfunded capital financing costs.

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

- A total investment of £9.6m has been made into the City's Highways and Public Realm infrastructure. This includes £6.3m of grant funded works plus a £3.3m Council funded highways investment programme.
- £34.8m of planned expenditure on the administrative office building in the forthcoming Friargate Business District and ICT infrastructure.
- A £12.4m programme in 2016/17 for Education/Children and Young People relating to investments in schools across the city. 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 £13.4 million to stimulate the local economy and create jobs.
- Investment of £5.5m to progress the Nuckle scheme improving the railway links between Nuneaton and Coventry and completing the leasing of new trains and a new platform at Coventry station.
- A £2.9m 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 £40m of Capital grants and £6m of revenue funding and capital receipts. The sources of grant funding are as follows.

Table 5: Capital Grant Funding

	£m
Growth Deal	21
Sub-regional & Government funding for the NUCKLE rail project and Highways	6
Education Funding Agency	4
All Other Grants/Contributions	9
Total	40

2.3.5 In line with the Medium Term Financial Strategy, the Council's approach to revenue funding will be to continue to fund the remaining on-going programmes of capital spend (in the areas of highways and ICT) from on-going revenue budgets. Any further revenue funding of capital will be minimised wherever practical, in particular where the capital expenditure is of a one-off nature. Therefore, within the 2015/16 and 2016/17 Capital Programmes any revenue funding for one-off capital schemes assumed previously has been replaced with Prudential Borrowing relevant in the main to the Customer Service Centre, the Destination Leisure Facility and the Friargate project. This will allow around £5m of one-off revenue funding being released to part-fund the one-off revenue cost requirement outlined in the Staffing Reductions and Voluntary Redundancy report to Cabinet in November 2015.

2.3.6 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.

2.3.7 **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 2016/17 as a result of the 2015/16 budgetary control process. Full details of the proposed programme are included in **Appendix 4.**

Table 6: 2016/17 – 2019/20 Capital Programme (Expenditure & Funding)

Expenditure	**2016/17 £'000**	**2017/18 £'000**	**2018/19 £'000**	**2019/20 £'000**
Business, Enterprise and Employment	76,008	62,827	6,716	3,000
Strategic Finance and Resources	4,066	1,400	1,250	1,250
Health and Adult Services	2,851	2,851	2,851	2,851
Education, Children & Young People	12,984	13,775	7,405	3,158
Public Services	17,270	14,272	7,468	7,013
Culture, Leisure, Sports & Parks	9,918	12,408	12,408	1,671
Community Development, Co-operatives & Social Enterprise	105	0	0	0
Total Approved Programme	123,202	107,533	38,098	18,943
Allowance for Rescheduling	(6,160)	475	3,496	1,133
Programme after Rescheduling	117,042	108,008	41,594	20,076

Funding	**2016/17 £'000**	**2017/18 £'000**	**2018/19 £'000**	**2019/20 £'000**
Prudential Borrowing	69,824	56,123	20,387	4,154
Grants & Contributions	39,863	44,889	16,762	12,195

Capital Receipts	2,600	3,375	550	0
Revenue Contributions	3,404	3,391	3,500	3,500
Leasing	1,351	230	395	227
Total	117,042	108,008	41,594	20,076

2.3.8 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 14 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, 6 grant funded replacement schools have been funded and delivered as part of the Government's Priority School Building Programme (PSBP) by the Education Funding Agency outside of the Council's Capital Programme. The final scheme – President Kennedy – will be completed in April 2017.The programme has helped to address some of the worst condition schools in the City. Funding has been found within the 2015/16 and 2016/17 Capital Programme to begin to address some of the backlog of significant condition issues that exist across the City's school estate primarily driven by the age and construction type of buildings. The Programme is seeking to address those building issues which if not addressed could lead to a school having to close e.g. roofs and boilers.

2.3.9 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.

2.3.10 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.

2.3.11 At the time of writing decisions are awaited on a planning application and associated funding application for a new bridge across the A45 to assist in Jaguar Land Rover expansion plans. If approved, this could add grant funded expenditure in the region of £35m to the Council's Capital Programme and when any details are confirmed this will be incorporated into 2016/17 capital monitoring reports.

2.3.12 In the coming year the Council expects to work closely with its partners in the proposed West Midlands Combined Authority to start delivering the Devolution Deal agreed with the Government. This is estimated to bring additional capital investment in excess of £8 billion over ten years across the West Midlands and associated LEP areas. This will require new ways of delivering capital investment involving a variety of mechanisms appropriate to each investment programme. It is possible that some of the capital investment will be delivered by the West Midlands Districts. The Council may need to use prudential borrowing to fulfil its agreed part of this and any borrowing costs incurred by the Council will be neutralised by the Combined Authority once its financial arrangements are fully in place.

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 5**);
- A suite of prudential indicators for treasury and capital programme management (**Appendix 6**);
- 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 third quarter of 2016, rising by 0.5% a year thereafter, finally settling between 2% and 3% in several years' time. However, persistently low inflation, subdued global growth and potential concerns over the UK's position in Europe mean that there is a chance that the first rate increase may be even later than this.

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. These gilts are forecast to have a shallow upward path due to continuing concerns about the Eurozone, emerging markets and other geo-political events weigh on risk appetite, while inflation expectations remain subdued. During 2015/16 longer term PWLB rates have been in the region of 3.2% to 3.9%. 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 2016 is as follows:

Table 8: Estimated Long Term Borrowing at 31st March 2016

Type of Debt	Total £m
PWLB	209.4
Money Market Loans	59.0
Stock Issue	12.0
Transferred Debt (other authorities)	16.5
PFI, Finance Lease & Other	75.0
Total Long Term Liabilities	**371.9**

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 £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; forward starting loans (where the interest rate is fixed in advance, but the cash is received in later years) 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 2016/17 is summarised below:

Table 9: 2016/17 Borrowing Requirement (excluding PFI & finance leases)

Underlying Borrowing Requirement	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
New funds to finance the Capital Programme	69.8	56.1	20.4	4.2
Minimum Revenue Provision (debt repayment provision)	(9.0)	(11.8)	(13.2)	(14.5)
Forecast increase in borrowing requirement	60.8	44.3	7.2	(10.3)

This implies a significant increase in the Council's underlying need to borrow over the coming years due to previous decisions taken by Council on schemes such as the Friargate and the City Centre Leisure Facility. Such costs are factored into the Council's medium term budget forecasts.

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 the level of investment balances, the objectives underpinning the Treasury Management Strategy and the forecast borrowing requirement for 2016/17 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** (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.

In common with many authorities the City Council's approach to calculating MRP and the set aside of capital receipts to repay debt has been reviewed. The purpose of the review has been to identify budgetary resources which could be released to help manage the Council's bottom line during a period of severe budgetary constraint, whilst ensuring that the Council continued to make prudent provision for the repayment of debt. The proposed changes are:-

- In respect of the **pre 2008 debt liability** to replace the current 4% reducing balance method of calculation with a fixed amount calculated at 2% of the outstanding debt liability, giving a 50 year straight line charge. The 50 year duration is appropriate given that many of the Council's existing assets are in excess of 50 years old and still in use. In addition, the council also has significant land holdings with no determinable asset life. The change in the calculation will alter the profile of forecast MRP, reducing it in the short term, but increasing it thereafter. However, the proposed revised "fixed amount" approach, unlike the existing "4% reducing balance" approach will eventually repay all debt, so will reduce the Council's debt burden in the long run. The impact on MRP will be calculated with effect from 2007/08;

- No longer make any **voluntary revenue provision or set aside capital receipts to repay debt** above the minimum required, unless separately approved in line with financial procedure rules. The authority is currently budgeting to make additional voluntary revenue provision across a number of areas including in respect of the costs of loan stock refinancing carried out in 2002 and also as a general provision to reduce debt. In addition, it is intended that future planned MRP may be reduced by an amount equivalent to the total voluntary revenue provision and capital receipts set aside in previous years. This will reflect the fact that past sums were set aside beyond the minimum level required, but this will only be done where it is regarded as prudent, taking into account considerations of affordability;

- To use the "annuity" rather than the "equal instalments" method of calculating MRP where this is appropriate. A feature of the annuity method is that it sets aside less MRP in early years, with a catch up as time progresses. Guidance for local authorities makes clear that the annuity method is relevant to schemes which drive regeneration and achieve administrative and cost efficiencies. Both the Friargate and City Centre Leisure Facility schemes will fall into this category;

The Capital Finance Regulations (SI 2008/414) require the approval of an MRP Statement setting out the authority's approach. It is proposed that the policy is revised with effect from 2015/16 and is:-

- 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;

- For supported capital expenditure incurred after 1st April 2008, MRP will be based either on the estimated asset life of the assets, using either the annuity or equal instalments calculation method or a depreciation calculation, or as a fixed charge of 2% pa of the relevant element of the Capital Financing Requirement;

- 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 set aside to repay debt, unless approved in line with the financial procedure rules;

- Separate arrangements will apply to any MRP arising from Combined Authority capital expenditure, as set out below in section 2.4.7.

2.4.7 **West Midlands Combined Authority MRP -** The agreed Combined Authority Devolution Deal proposes the establishment of a Collective Investment Fund to support investment in the region. It is possible that some of this investment may be delivered by individual districts, and funded from prudential borrowing. MRP on capitalised loan advances to other organisations or individuals will not be required. Instead, the capital receipts arising from the capitalised loan repayments will be used as provision to repay debt. However, revenue MRP contributions would still be required equal to the amount of any impairment of the loan advanced. MRP on investments in Equities will be made on an annuity profile over 20 years, as recommended by Government Guidance. Any borrowing costs incurred by the Council will be neutralised by the Combined Authority once its financial arrangements are fully in place.

2.4.8 **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 2015/16 the amount held in these investments has ranged between £60m and £80m;
- 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 2015/16 the amount held in these investments has ranged between £30m and £50m.
- 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 2015/16 the amount held in these investments has been anything up to £25m

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 assets classes.

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

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

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

b) Counterparties will only be used if they have a credit rating of BBB+ or better and are recommended as a suitable counterparty by the Council's treasury advisors. Unsecured investment with banks rated BBB are restricted to overnight deposits at the Authority's current account bank;

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

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

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

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

g) The minimum sovereign rating for countries, other than the UK, in whom counterparties are located is A-, with any investments in countries with a rating below AA+ being classified as non-specified investments, subject to a total limit of £5m;

h) The maximum limit for investments longer than 364 days is increased from £10m to £30m to reflect the generally higher level of Council investment balances as well as the scope to increase returns by investing for longer periods.

The Council will be prepared to lend to the West Midlands Combined Authority. Such lending may be as part of arrangements agreed with the Combined Authority and other constituent authorities.

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

2.4.9 **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.

2.4.10 **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.

2.4.11 **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 6** 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 14.03% in 2016/17 to 16.82% in 2018/19. This increase reflects the effect of 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 2018/19 for broadly the same reasons.

Capital and Treasury Management Related Prudential Indicators
These indicators, set out in **Appendix 6**, 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 2016/17 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 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% of total debt that can mature in less than 12 months. This takes into account the potential need to take out short term borrowing to meet day to day cashflow requirements, as well as the potential for LOBO market loans to be "called" for repayment.

- Other indicators highlight Planned Capital Spend (Indicator 4), Actual Debt at 31st March 2015 (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.

2.4.12 Leasing - The City Council uses operating leases for non-fixed plant and equipment and the Capital Programme includes £1.4m of spend to be resourced from leasing in 2016/17. 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 to public consultation ending on the 21st January 2016. The Council hosted a survey on its website asking for people's views of the budget proposals. This survey was publicised through the Council website and Facebook pages. In addition, a meeting was held with the Chamber of Commerce during January. The details arising from this consultation are set out in Appendix 1.

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 2016. The proposed profile of these changes are 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 2016/17 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 budget produces a balanced position for 2016/17. However, from 2017/18 there is currently projected to be an increasing budget gap, based on the four year settlement, as set out in Section 2.2.1.

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 2016/17 will not be known until finalisation of the 2015/16 accounts and reserve levels will be reviewed at that time. The Council's total reserve balances of £85m at the end of 2014/15 are set out in the table below. Of the overall balance, £18m belongs to schools and are outside the Council's control. Explanations for the remaining balances were set out in the Council's Financial Outturn Report considered by Cabinet in June 2015.

Table 10: Summary of Reserve Movements in 2014/15

	1st April 2014 £000	(Increase)/ Decrease £000	31st March 2015 £000
General Fund Balance	(7,328)	2,168	(5,160)
Private Finance Initiatives	(10,333)	(728)	(11,061)
Potential Loss of Business Rates Income	(6,400)	(700)	(7,100)
Early Retirement and Voluntary Redundancy	(2,800)	(2,309)	(5,109)

Achievement of Future Savings	(2,800)	(624)	(3,424)
Children's Social Care	(4,000)	1,000	(3,000)
Leisure Development	(3,181)	1,722	(1,459)
Public Health	(2,527)	1,125	(1,402)
Health and Social Care Schemes	(1,785)	368	(1,417)
Vehicle Purchase Programme	(1,290)	(257)	(1,547)
Troubled Families	(1,088)	378	(710)
Schools (specific to individual schools)	(18,499)	449	(18,050)
Schools (related to expenditure retained centrally)	(3,645)	(2,826)	(6,471)
Insurance Fund	(3,348)	436	(2,912)
Management of Capital	(1,869)	(143)	(2,012)
Other Corporate	(1,988)	(382)	(2,369)
Other Directorate	(4,878)	(1,555)	(6,434)
Other Directorate funded by Grant	(2,480)	(1,997)	(4,478)
Capital Grant Unapplied Account	(756)	372	(384)
Total Usable Reserves	(80,995)	(3,503)	(84,499)

The level of reserves has been one of the points raised in the Budget consultation exercise, with comment that the Council should use reserves to fund 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. Local authority reserves must also be viewed in the context of the risks that are faced, including in respect of pension liabilities and other factors set out below, in section 5.1.4.

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 unringfenced reserves as a proportion of its net expenditure level when compared with all other Councils (28% giving it a ranking of 268 out of 353 local authorities or 19 out of 36 Metropolitan Districts).

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 2016/17 although approaching the minimum acceptable level for a Council of this size in the current financial climate. This judgement is based on the following:

i) The Council is adequately provided for in terms of its reserves compared to its overall level of budget and better provided for than some other similar authorities.
ii) The level of insurance reserves is sufficient to meet any likely calls on them (within reasonable limits of assessed risk).
iii) The level of reserves is sufficient to support contributions to 2016/17 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 Directorates have been involved in the make-up of the information included in the policy and financial planning process through the Strategic Management Board.
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 2016/17 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 Financial Implications - Budget Risks

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

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 is controlled to budgets. This pressure is certain to increase due to on-going national financial circumstances and, therefore, compliance with the Council's budgetary control rules remains essential,

5.1.4.3 **Children's Social Care Services –** The volume of cases and the cost of care continues to represent a large service and budget pressure. The current proposed budget scales back the £10m pa additional resources provided in 2015/16 to £8m from 2017/18. It is essential that work underway is progressed to ensure safe and secure methods are found to deliver services to children within budget.

5.1.4.4 **Delivering the Base Programme** – the existing base programme includes a number of continuing major developments including : Kickstart; Customer Journey and Connecting Communities. These schemes are fundamental in improving the efficiency of the Council through the development of new ways of working and interacting with our customers. Savings from these areas rise to £25m ny 2017/18 and if not managed successfully or implemented in the planned timescale, will have a significant financial impact on the authority and its ability to deliver services.

5.1.4.5 **Health and Adult Social Care –** This area continues to operate within a very dynamic environment with expanding users numbers and increasingly complex care packages which continue to represent a large service and budget pressure. This area of activity is naturally difficult to predict and the Council needs to take some significant steps to ensure an appropriate balance between the budgets in this area and the level of activity in line with Council policy.

5.1.4.6 **Local Government Finance Changes** – the regime in which local authorities work is increasingly one in which risk is transferred from central to local government. This increased localisation will continue in the longer term as the proportion of business rates retained locally increases from 49% to 100% by 2020. In addition, the supplementary increase in Council Tax through the 2% Adult Care precept will run in parallel to the reduction of RSG. The combined effect of these changes, as well as the potential reduction in other programmes such as New Homes Bonus, presents local authorities with both an opportunity and a resource risk. The buoyancy of local income sources, through the expansion of the Business Rate and Council Tax bases, is an ever more crucial issue for local authorities.

5.1.4.7 **Major Projects –** The Council is involved in a number of major projects and an increasing number of complex financial transactions that give it some exposure to a degree of financial and reputational risk. These include 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.
- City Centre Leisure Facility – The development of regionally significant water facility on the site of the Christchurch and Spire House office buildings.

- The Nuckle phase 1 project to build the stations is now complete and stations are open. The second phase to improve local rail connections bring in the enhanced train service and new platform at Coventry is now progressing alongside the development of the Station Masterplan (Cabinet 3rd March 2015)
- 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 Swanswell Viaduct, utilising resources from the Incentive fund and S106
- New Regeneration projects at the Burges working in partnership with CDP Development to revitalise the area.
- The planned scheme to build a new bridge across the A45 to assist in Jaguar Land Rover expansion plans.
- Financial arrangements made on commercial terms to help support local organisations and businesses such as the 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 as discussions begin in relation to the forthcoming actuarial revalution. The Council will want to focus on maintaining a sustainable long-term view on recovery of past service pension deficits.

5.1.4.9 **West Midlands Combined Authority** - The forthcoming Combined Authority will be responsible for delivering a significant programme of projects including a number within Coventry, and are subject to some relatively novel funding mechanism involving several interdependencies. The programme inevitably carries significant risks. The programme will be subject to detailed delivery plans and rigorous project management arrangements as well as on-going financial monitoring of Business Rates growth on which the financial plans are predicated. There is a specific risk around Business Rates. It is not clear how Business Rate reform will relate to the assumptions that part of the business rate growth in the West Midlands will be used to fund infrastructure projects. This will be raised with Government in its forthcoming consultation on Business Rate reform.

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. This will mean that savings will need to be made on employees budgets. The current Early Retirement and Voluntary Redundancy programme is central to this. 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

Most of the savings contained in this year's Budget Report are largely technical in nature in that they do not have a direct impact on services or the Council Workforce. None of these savings are anticipated to have a negative impact and no Equality and Consultation Analyses (ECA) are therefore required in these areas. The Government has introduced legislation which allows the Council to raise Council Tax in order to meet additional costs of Adult Social Care. Any potential equality impacts arising from this will be explored more fully once it is known how this will be implemented at a local level. Cost pressures in relation to Adult and Children's social care and waste disposal largely reflect demographic and/or market pressures and will not impact significantly on the nature of services in question and again, there is no requirement to carry out an ECA. An area of potential positive impact this year relates to expenditure in the area of Deprivation of Liberty Safeguards.

6.5 Implications for (or impact on) the environment

No specific impact.

6.6 Implications for partner organisations?

Although previous budgeted changes such as Connecting Communities will result in changes in the relationships between the Council and its partners the new revenue proposals in this report are focussed overwhelmingly on internal matters. The Council's Capital Programme will continue to change the face of transport and infrastructure in the city and offer further opportunities through regeneration and investment schemes for cooperation and interaction between the Council, local businesses and other providers of public sector services.The continued development of Combined Authority proposals will continue to involve the Council in close working relationships with councils across the sub-region.

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