Coventry City Council

Public report
Cabinet

Cabinet 21st February 2017
Council 21st February 2017

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

Director Approving Submission of the report:
Executive Director, Resources

Ward(s) affected:
All

Title:
Budget Report 2017/18

Is this a key decision?
Yes - The report sets the Council's Revenue Budget for 2017/18 incorporating revenue spending and savings decisions for 2017/18 and future financial years and the Capital Programme for 2017/18 to 2021/22.

Executive Summary:
This report follows on from the Pre-Budget Report approved by Cabinet on 29th November 2016 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 2017/18 incorporating the following details:

- Gross budgeted spend of £703m (£11m and 2% higher than 2016/17).
- Net budgeted spend of £232.5m (£0.9m lower than 2016/17) funded from Council Tax and Business Rates less a tariff payment of £0.7m due to Government.
- A Council Tax Requirement of £118.5m (£7.7m and 7% higher than 2016/17), reflecting a City Council Tax increase of 4.9% detailed in the separate Council Tax Setting report on today's agenda.
- New service savings of £1.4m in 2017/18 rising to £10.4m in 2019/20.
- A Capital Programme of £123.2m (£42.2m and 52% more than the latest estimated 2016/17 programme) including expenditure funded by Prudential Borrowing of £60.9m;
- An updated Treasury Management Strategy.

It should be noted that, at the time of producing this Budget Report, the Final 2017/18 Local Government Finance Settlement has not yet been published. The proposals within this Budget Report have been made on the basis of the latest information regarding the likely details of the Settlement. In particular, this includes the estimated impact of joining the '100% Business Rates Pilot'. The difference between these estimates and the details in the Final Settlement are likely to be insignificant and will be met by reserve contributions.

The Settlement is anticipated to incorporate continued reductions in core Government funding over the next 3 years with a planned reduction of £24m in Coventry's funding assessment. However, along with the other 6 West Midlands councils, Coventry is taking part in a 100% Business Rates Pilot scheme. This will enable Coventry to retain 99% of Business Rates income including an element of growth against an historic baseline which would otherwise have been returned to the Government. This money is available for the Council to use within the budget proposals within this report and is in addition to the resource base assumed within the Pre-Budget Report.

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. In 2016/17 the Government allowed councils to increase this flexibility by a further 2%, up to a maximum of 4%, recognising the increasing pressure on Adult Social Care (ASC) services across the country. This was the basis on which the Pre-Budget position was reported. The Government has subsequently announced a further extension of this ASC flexibility from 2% up to 3%. The recommended budget within this report assumes taking up this 3% 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 4.9%. This proposed increase will be the equivalent of around a pound a week for a typical Coventry household.

This Council's medium term financial position includes the impact of reductions in Government funding that had already been anticipated and savings programmes have been approved previously. At the start of the 2017/18 Budget Setting process the Council faced a financial gap of £19m after taking these factors into account including a temporary delay in the likely achievement of some savings. In broad terms, the Budget has been balanced by additional resources available from Council Tax and Business Rates resources, including those available as a result of the Council's participation in the West Midlands 100% Business Rates Pilot. Costs are also now expected to be lower than planned previously in the areas of contingency budgets, capital financing costs and pensions. New savings totalling £1.4m (rising to £10.4m) have also been identified in service budgets, reduced from £3.2m (rising to £14.7m) following the period of consultation triggered by the Pre-Budget Report. All these proposals are set out in detail in Appendix 1. Where these are different to the proposals that were included in the Pre-Budget Report, this has been indicated within the appendix.

These proposals have been designed to provide the Council with a robust medium term position and subject to the recommendations being approved the Council will have a balanced budget over the medium term period, 2017/18 to 2019/20.

Given the forthcoming national proposals for local government finance to be based on a 100% Business Rates model from 2020/21, the vibrancy and growth of the city is vital to ensure a secure level of Business Rates income. Proposals within the recommended Capital Programme are designed to help achieve this and amount to £123m in 2017/18. These represent an ambitious approach to investing in the City and include the completion of the Council's Friargate office building, the initial construction phase of the new city centre leisure facility, the first phases of the City Centre South and Connecting Coventry schemes and continued advancement of the Coventry Station Master Plan. Over the next 5 years the Capital Programme is estimated to be £600m and represents the largest ever investment by and through the City Council.

The annual Treasury Management Strategy is also set out, incorporating the Minimum Revenue Provision policy that was revised in 2016/17 and 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 1**.

(2) Approve the total 2017/18 revenue budget of **£703m** in **Table 1** and **Appendix 4,** established in line with a 4.9% 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 adequacy of reserves and robustness of the budget in **Section 5.1.2 and 5.1.3.**

(4) Approve the Capital Programme of £123.2m for 2017/18 and the future years' commitments arising from this programme of £480.5m between 2018/19 to 2021/22 detailed in **Section 2.3** and **Appendix 5**.

(5) Approve the proposed Treasury Management Strategy for 2017/18 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 2.4.11** and summarised in **Appendix 7**.

List of Appendices included:

Appendix Number	Title
1	Budget Financial Proposals – Changes to Base Position
2	Consultation Responses
3	Equality Analysis
4	Summary Revenue Budget
5	Capital Programme 2017/18 to 2021/22
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 – February 21st 2017

Budget Report 2017/18

1. Context (or background)

1.1 This report seeks approval for the 2017/18 Revenue Budget and corresponding Council Tax rise, Capital Programme, Treasury Management Strategy and Prudential Indicators. The report includes detail of the resources retained as part of the 2017/18 Government funding allocation and forecasts of the Council's medium term revenue financial position. This will represent the second year of the Government's 4 year funding position for local government which began in 2016/17.

1.2 The revenue budget proposals in this report follow on from the Pre-Budget Report approved by Cabinet on 29th November 2016. They have been established in line with the Council's current Medium Term Financial Strategy and Council Plan,

1.3 In December the Government announced the provisional Local Government Finance Settlement for 2017/18. This re-affirmed a continuation of public sector spending reductions up to at least 2020. No firm indication has been given for the period after 2020 and this will be the subject of considerable uncertainty until nearer the time.

1.4 Resources available to Coventry had fallen by c£95m over a four year period to 2016/17 and the Settlement Funding Assessment for Coventry announced in December shows a further reduction of £12m for 2017/18 and a total reduction of £24m over the coming three years. Incorporating this grant loss, the Council's starting gap for 2017/18 was £11m. However through the current Budget exercise it emerged that some existing savings plans would not be delivered in 2017/18 to the original timescale and this has increased the overall budget shortfall to £19m. The overall budget shortfall rises to £36m by 2019/20 and means that the Council has had to plan for significant reductions in its budgets over the medium term. This report incorporates savings proposals that have been the basis of consultation since approval of the Pre-Budget Report.

1.5 In 2016/17 councils nationally had the flexibility to increase Council Tax by up to 2% without holding a local referendum on the matter plus additional flexibility of up to 2% in recognition of the increasing pressure on Adult Social Care (ASC) services across the country. The Pre-Budget Report was approved on the basis of consulting on a Council Tax rise of just under 4%. The Government have increased the ASC flexibility to 3% for 2017/18 and the recommended Budget within this report assumes taking this up 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 4.9%.

1.6 The 2016/17 Settlement introduced changes to the New Homes Bonus (NHB) Grant with the key change being a reduction in the amount allocated to the Bonus nationally in order to fund the Better Care Fund. Future reductions in Coventry's New Homes Bonus are built into the Council's medium term financial plan. The 2017/18 Local Government Finance Settlement has further top-sliced New Homes Bonus and used this to fund a 2017/18 Adult Social Care Grant causing a further net loss of resources of £0.3m for Coventry.

1.7 It is important to recognise the major projects that are being delivered across the city which the Council is leading on or supporting in 2017/18: work will begin on the construction of a new water and leisure facility in the city centre; it is anticipated that further restaurants will be attracted to Coventry to add to the high profile names that have come to the city recently; major projects to enhance the local rail travel offer (the NUCKLE scheme) and Coventry Railway Station (the Coventry Station Master Plan) will continue the transformation of this part of the city; further public realm works will be undertaken to improve the appeal of the city centre in 2017/18; and the Council is in the early stages of putting together the major City Cente South and Connecting Coventry projects. City

Centre South will deliver a new mixed leisure/retail/residential development, with Connecting Coventry delivering a Strategic Transport Investment Programme across Coventry, Warwickshrie and Solihill, both supported by funding available as part of the Council's participation in the West Midlands Combined Authority (WMCA). Several of these schemes will progress in areas of the city adjacent to the Friargate regeneration area and the Council will continue to pursue options to take Friargate forward over the medium term. The vast majority of the funding to deliver these schemes comes from sources that can only be used in one-off capital schemes and therefore is not available to support the revenue budget which is the focus of much of this report.

1.8 In February 2016 the Council agreed formally to participation in the West Midlands Combined Authority and this came into existence in June 2016. Subsequently, a devolution deal has been approved which incorporates a WMCA funding package totalling £8bn including specific proposals for schemes across the West Midlands. The schemes that will affect Coventry will result in public and private investment of over £1billion in the city. The first part of this involving £98.8m of WMCA funding for the Coventry City Centre South development was approved in December. In addition, a £620m Strategic Transport and Investment Programme (Connecting Coventry) incorporating £284k of WMCA funding and a further £50m+ of investment for the Friargate development are going through the approval process with WMCA. This forms part of an overall Council Capital Programme estimated to be in excess of £600m over the next 5 years which the Council intends should help to spearhead growth, economic development and job creation in the city and greater self-sufficiency for the City Council through the generation of higher tax revenues.

1.9 Revenue Resources

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

Table1: Funding of Revenue Budget

2016/17 £000s		**2017/18 £000s**	**(Increase)/ Decrease £000s**	**Increase/ (Decrease)**
(110,817)	**A: Council Tax Requirement**	**(118,494)**	**(7,677)**	**7%**
(58,447)	**B: Retained Business Rates***	**(113,988)**	**8,576**	**(7%)**
(64,117)	**C: Revenue Support Grant and Top-Up***	**0**		
(380,187)	**D: Specific Grants (see section 3.4) ****	**(390,098)**	**(9,911)**	**3%**
(79,074)	**E: Fees, Charges & Other Income****	**(80,783)**	**(1,709)**	**2%**
(233,381)	**Funding of Net Budget (A + B + C)**	**(232,482)**	**899**	**0%**
(692,642)	**Funding of Gross Budget (A + B + C + D + E)****	**(703,363)**	**(10,721)**	**2%**

*Lines B and C reflect (i) increased resources resulting from the Council's participation in the new West Midlands 100% Business Rates Pilot and (ii) a reduction in the Council's Settlement Funding Assessment. The 2017/18 Business Rates figure takes account of a tariff payment paid to Government and a budgeted pooling payment from the Coventry and Warwickshire Busines Rates Pool. See paras 1.9.3 to 1.9.5 below.

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

1.9.2 The resource projection figures in the table above use the Final Local Government Finance Settlement position for 2017/18.

Table 2: Settlement Funding Assessment

		2017/18	2018/19	2019/20
Coventry's Settlement Funding Assessment	£m	110.2	103.9	97.8
Decreases on Previous Year	£m	11.5	6.3	6.1
	%	9.4	5.7	5.8

1.9.3 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 2017/18 is estimated at £800, a fall over the period of £842.

1.9.4 Whilst this indicates further resource cuts for Coventry over this period, the Council's participation in the West Midlands 100% Business Rates Pilot has made new resources available over the next three years. The Council will now retain 99% of Business Rates income including an element of growth between the years of 2013/14 and 2015/16 against a baseline which would otherwise have been returned to the Government. These figures, including the 99% Business Rates position, that are reflected in Table 1 above. The Council's participation in the Pilot is on a no detriment basis meaning that the Council will not receive a lower level of resources than it would have received had it not participated in the Pilot.

1.9.5 This marks the start of a change of direction for the Council moving towards the anticipated national move to a full retention of Business Rates from 2020/21. In particular, whereas the Council received a top-up payment from Government under the previous funding arrangements it will need to make a tariff payment to Government of £0.7m under the new arrangements. This tariff payment is anticipated to grow in the coming years indicating that the Council is judged by Government to be earning a greater level of Council Tax and retained Business Rates than it requires for its assessed spending needs. In part this reflects cuts to Government funding for local government. However, it is also an initial indication that the Council is more self-reliant (in relative terms compared to other areas) and able to fund its own spending requirements. It is this transition that makes it increasingly important for the Council to grow and generate greater resilience and prosperity in the local economy in order for it to be able to support itself under Government plans for local government to become self-sufficient.

1.9.6 Specific Grants – In overall terms specific revenue grant funding has increased between 2016/17 and 2017/18 from £380m to £390m. 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 £194m, compared with £189m in 2016/17. Housing Benefit

Subsidy payments have been estimated at £114m, whilst other significant grants/movements include:

- A Public Health Grant of £22.5m which represents a £0.6m or 2.5% cut from the 2016/17 grant.
- Over £16m of adult social care funding, much of it driven by the changing relationship between the social care and health sectors and including grants relating to the Better Care Fund (BCF) and Improved BCF, the Independent Living Fund and the 2017/18 Adult Social Care Grant.
- New Homes Bonus Grant of £8.0m (£1.6m decrease)
- Assumed funding for Adult Education of £5.6m (£0.2m decrease)
- Education Services Grant estimated at £0.9m (£2.5m decrease)
- Grants received in lieu of Business Rates amounting to £5.8m such as Small Business Rates Relief Compensation Grant (£3.5m increase).
- Housing Benefit Administration Grant of £1.3m (£0.2m decrease)
- Troubled Families Grant £1.3m (£0.1m increase).

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 changes to the savings and cost pressures that were set out as part of the Pre-Budget Report in November. The full list of proposals is provided in **Appendix 1.** Approval is being sought for these and the overall budget and Council Tax Requirement in **Appendix 4**. These are based on a City Council Tax rise of 4.9%, reflecting a 1.9% "base" rise plus 3% in respect of Adult Social Care in line with the Government's new policy.

2.1.2 The report seeks approval for a 2017/18 Capital Programme of £123m compared with the initial 2016/17 programme of £117m. 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 2.4.11** 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 29th November 2016 as a basis for Pre-Budget consultation. A line by line impact of how these proposals affect the base budget is given in **Appendix 1** with an indication of where there have been changes to the figures included within the Pre-Budget Report. The changes since the Pre-Budget Report are shown in the table below. These changes enable the Council to deliver a balanced budget for 2017/18 and, based on current information, form the basis of a balanced budget over the medium term.

Changes in Resources Compared with the Pre-Budget Report Position

The figures in brackets below represent increases in resources compared with the Pre-Budget position. The figures not in brackets represent a reduction in resources compared with Pre-Budget. The individual changes are:

- Line 2 to 2c – Final estimate of Council Tax and Business Rates income including the estimated benefit of taking part in the 100% Business Rates Pilot

- Line 3 – New Homes Bonus reduction announced within the Local Government Finance Settlement
- Line 4a – Adult Social Care Grant announced by Government as part of Local Government Finance Settlement
- Line 4b – Proposal for the Adult Social Care precept to be increased to 3% for 2017/18 and 2018/19 as allowed by Government. The previous assumption was for a 2% increase.

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

	Appx 2 Line Ref	2017/18 £m	2018/19 £m	2019/20 £m
Council Tax Base & Estimated Outturn	2	(0.7)	(4.5)	(4.0)
Business Rates Estimated Outturn	2a	(1.2)	0.0	0.0
Business Rates Tax-Base	2b	(1.6)	2.0	(0.5)
100% West Midlands Business Rates Pilot	2c	(3.6)	(3.0)	(2.2)
Loss of New Homes Bonus	3	2.0	0.1	0.0
2017/18 Adult Social Care Grant	4a	(1.6)	0.0	0.0
Adult Social Care Precept	4b	(1.1)	(2.4)	0.0
Total Change in Resources		**(7.8)**	**(7.8)**	**(6.6)**

Technical and Corporate Changes Compared with the Pre-Budget Report Position

The figures in brackets below represent new or increased income or higher savings compared with the Pre-Budget position. The figures not in brackets represent reduced or delayed savings or an increase in costs compared with Pre-Budget. The individual changes are:

- Line 6a – Reduced cost of employer pension costs compared with previous forecasts a result of recent pension revaluation and agreement with the West Midlands Pension Fund (see 2.2.3 below).
- Line 10a – Future estimated increase in levy (formerly the Integrated Transport Levy)
- Line 11 – Estimated future increase in dividends from the Company
- Line 14a – Increased cost of updating the Council's ICT equipment
- Line 14b – Impact of delay in implementing the Connecting Communities programme

Table 4: Technical and Corporate Changes Compared with the Pre-Budget Report Position

	Appx 2 Line Ref	2017/18 £m	2018/19 £m	2019/20 £m
Pension Cost Savings	6a	(2.1)	(2.1)	(2.1)
WM Combined Authority Transport Levy	10a	0.0	0.4	0.7
Coventry/Solihull Waste Disposal Co.Dividends	11	(0.2)	(0.3)	(0.3)
ICT - Personal Computer Refresh Programme	14a	0.2	0.2	0.2
Connecting Communities	14b	1.4	0.0	0.0
Total Technical and Corporate Changes		**(0.7)**	**(1.8)**	**(1.5)**

Savings Proposals Compared with the Pre-Budget Report Position

Given the resource, technical and corporate changes set out in Tables 3 and 4 above, the Council is in a position to reconsider some of the service reduction proposals that were set out in the Pre-Budget Report in November. In addition, a number of consultation responses have been received, a summary of which is reflected in Appendix 2. In the light of these consultation responses taken alongside the Council's policy priorities, a number of changes have been proposed for consideration as part of final Budget Setting. The changes all represent decisions <u>not</u> to proceed with the savings options in the Pre-Budget Report. Line 35 proposes not to implement the saving in Cabinet Member meetings but retains a proposal to no longer hold Ward Forums.

Table 5: Savings Proposals Compared with the Pre-Budget Report Position

	Appx 2 Line Ref	2017/18 £m	2018/19 £m	2019/20 £m
Parks and Street Cleansing	24	0.5	0.5	0.5
Cease Mobility Pathways	25	0.05	0.05	0.05
Employment Team/Job Shop/Youth Employment	28	0.5	0.5	0.5
Business Investment Activity	29	0.1	0.1	0.1
Council Tax Support Threshold	34	0.0	2.0	2.0
Cabinet Member Meetings	35	0.035	0.035	0.035
Citivision	36	0.05	0.05	0.05
Highways Repairs (reduce programme and/or backfill from capital)	38	0.5	0.5	1.0
Total Changes in Savings Proposals		**1.7**	**3.7**	**4.2**

Use of One-Off Resources Compared with the Pre-Budget Report Position

The figures in brackets below represent an increased use of one-off resources to fund the budget. All other figures are a reduced use of one-off resources. The individual changes are:

- Lines 44 and 46 – Reverses or re-profiles (Line 44) proposals to use capital receipts to fund revenue
- Line 43, 45 and 47 – Reverses proposals to use one-off reserves to fund revenue
- Line 47a – Proposals to contribute to reserves and use this to smooth future budget bottom lines.

Table 6: Use of One-Off Resources Compared with the Pre-Budget Report Position

	Appx 2 Line Ref	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Airport Dividend Reserve	43	1.0	0.9	0.8
Use of Capital (revenue in Capital Programme)	44	1.7	3.0	(3.0)
Insurance Reserve	45	0.2	0.0	0.0
Fund Capital Costs from Capital Receipts	46	0.5	0.5	0.5
One-Off Reserves	47	2.0	0.0	0.0
Medium Term Financial Reserves Strategy	47a	0.0	2.9	(2.8)
Total Changes in Use of One-Off Resources		**5.4**	**7.4**	**(4.6)**

Table 7: New Policy Proposals

	Appx 2 Line Ref	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Development of Acquisition of Revenue Generating Assets including Housing Company	48	0.1	0.0	0.0
City of Culture	49	0.25	0.0	0.0
New Policy Proposals		**0.4**	**0.0**	**0.0**

2.2.2 The final summary Budget changes compared with the Pre-Budget position and overall Budget position is as follows:

Table 8: Summary Changes to the Pre-Budget Position

	2017/18 £m	2018/19 £m	2019/20 £m
Pre-Budget Position Brought Forward	1.0	(1.5)	8.5
Change in Resources	(7.8)	(7.8)	(6.6)
Technical and Corporate Changes	(0.7)	(1.8)	(1.5)
Changes in Savings Proposals	1.7	3.7	4.2
Changes in Use of One-Off Resources	5.4	7.4	(4.6)
New Policy Proposals	0.4	0.0	0.0
Final Budget Position	**0.0**	**0.0**	**0.0**

2.2.3 Pension Contributions - The Council's arrangements with the West Midlands Pension Fund has been subject to a recent triennial review of superannuation payments covering the period from 2017/18 to 2019/20. Discussions have been held with the Fund and its actuary over the course of the last year and final agreement has been reached on employer superannuation payments to the Fund for the next three years. The agreed payments have been built into this budget and the authority's medium term financial plans. For Coventry, the budgeted employer pension contributions for 2017/18 to 2019/20 will increase from 25.9% to 27.3% for the next three years. The Council has negotiated with the Fund to pay all of its contributions for 2017/18, 2018/19 and 2019/20 via a discounted one-off payment of £93.7m in April 2017 which will be spread over three years in accounting terms. The pension contributions resulting from the negotiation and discussion have improved the Council's financial position relative to the Pre-Budget Report reflected in line 6a of Appendix 1. The position of the Council's pension liability and employer contributions will be reviewed again in 2019.

2.2.4 Employment Costs and the Living Wage - Line 17 of Appendix 1 shows a proposed saving from the Council's employment costs rising to £5m over the course of the next three years. The initial stages of a review have begun although no savings are assumed in year 1. The review will consider a range of options and the Council will work in partnership with the Trade Unions on the proposals. Ahead of this, a decision is required imminently on the Council's Living Wage policy and it is proposed that the Council should move from the Living Wage Foundation Living Wage and align to the Local Government pay spine. This is slightly higher (4%) than the government national living wage. For 2017/18 this will provide a 1% increase on the existing rate of £8.25 to provide a new Coventry minimum rate of £8.33 per hour (and a slight increase for those employees on pay spine 12 who would receive £8.36 per hour in line with the local government pay spine).

2.3 Capital Programme

2.3.1 In **Appendix 5** there are proposals for a Capital Programme of £123.2m. This compares with the current projected 2016/17 programme of £81m. 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, investment in the new Sports Destination facility and provision for planned new investment with WMCA funding including City Centre South, Connecting Coventry and the Friargate district.

2.3.2 The 2017/18 Programme requires £60.9m of funding from Prudential Borrowing, £27.6m of which relates to specific approval for the Friargate Office building and the City Centre Destination Leisure Facility. A further £32.5m 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 2017/18 as a result either of in-year re-profiling of expenditure, or as a result of other additional funding being received in-year ahead of the need to spend. In addition to the opportunities to receive additional external funding, the Council's Section 151 officer will continue to explore options to fund the programme in the most appropriate way depending on the balance of resources. This could include using capital receipts to reduce the overall need to borrow, or re-invest in new income earning assets, which would provide a revenue stream to the Authority.

2.3.3 A full 5-year programme is detailed in **Appendix 5** with the main 2017/18 planned expenditure as follows:

- £18m investment in Sports and Leisure facilities, including the start of the build phase for the new £33m Destination Leisure Facility and completion of the 50m pool at the Alan Higgs Centre.
- An £18m programme in 2017/18 within the Education and Skills Portfolio, most of which relates to investments in schools across the city.
- £17m of investment in the City's Highways and Public Realm infrastructure. The future programme includes provision for a new multi storey car park at Salt Lane.
- £15m of investment for the provision of public infrastructure to enable the development of the Whitley South development. The final scheme is budgeted to cost £35m funded exclusively from external grant.
- £12m of Growth Deal funding to support economic growth and Small & Medium Size Enterprises in the city.
- The first £11m of an eventual £133m programme to take forward the City Centre South regeneration of a major part of the City Centre partly funded by the WMCA as reported to Cabinet in January 2017
- £9m of planned expenditure which will bring to practical completion the Council's new Friargate administrative office building and associated ICT and infrastructure projects.
- The initial £7m of an eventual planned £193m investment in the Connecting Coventry Strategic Transport Investment Programme per the report to Cabinet in January 2017.
- £5m continues the progress of the Coventry Station Masterplan and the Nuckle (1.2) schemes to deliver transformational improvements to Coventry Railway Station, improve the railway links between Nuneaton and Coventry and provide a new platform at the railway station.

2.3.4 In addition to the Prudential Borrowing referred to above, the other main sources of funding for the 2017/18 Capital Programme are £54m of Capital grants, £1.7m of Section 106 developer contributions, £2m of revenue funding and £4m of capital receipts. The sources of grant funding are as follows.

Table 9: Capital Grant Funding

Grant	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
Disabled Facilities Grant	2.9	2.9	2.9	0.0	0.0	**8.6**
Department for Transport	13.6	18.8	14.1	3.9	11.0	**61.5**
Education Funding Agency	6.1	5.4	2.8	2.5	0.0	**16.8**
ERDF	2.3	1.5	0.0	0.0	0.0	**3.8**
Growth Deal	10.5	19.4	6.3	0.1	0.0	**36.4**
Highways England	0.0	0.0	0.0	4.6	9.5	**14.1**
Innovate UK	0.3	0.3	0.0	0.0	0.0	**0.6**
West Midlands Combined Authority	12.3	77.2	54.4	53.4	71.5	**268.8**
All Other Grants & Contributions	6.4	1.8	0.5	3.1	11.5	**23.4**
TOTAL PROGRAMME	**54.3**	**127.3**	**81.0**	**67.7**	**103.6**	**433.9**

2.3.5 The programme reflects a move towards the Council's Medium Term Financial Strategy aim of reducing the revenue funding of capital. Capital receipts of £4m are programmed to replace previously assumed revenue contributions over the next three years in line with the revenue programme. Revenue funding of £6m will continue over this period to part fund areas such as Highways and ICT. This will be subject to review on an annual basis and will take into account the level of capital receipts available and the Council's strategic direction in the use of such receipts.

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 2017/18 as a result of the 2016/17 budgetary control process. Full details of the proposed programme are included in **Appendix 5.**

Table 10: 2017/18 – 2021/22 Capital Programme (Expenditure & Funding)

Expenditure	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	Total £'000
Strategic Finance and Resources	2,525	2,070	2,650	1,400	1,000	**9,645**
Education and Skills	17,648	13,625	3,103	2,523	0	**36,899**
Jobs and Regeneration	63,173	144,496	80,479	66,256	105,464	**459,868**
City Services	19,254	21,755	6,882	4,142	2,369	**54,402**
Adult Services	2,905	2,851	2,851	0	0	**8,607**
Public Health and Sport	17,689	14,327	2,103	0	0	**34,119**
Community Development	0	115	0	0	0	**115**
TOTAL PROGRAMME	**123,194**	**199,239**	**98,068**	**74,321**	**108,833**	**603,655**

Funding	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	Total £'000
Capital Corporate Resources	659	1,009	1,859	859	459	**4,845**
Capital Unringfenced Receipts	1,299	0	3,000	0	0	**4,299**
Capital Ringfenced Receipts	2,005	3,780	230	230	0	**6,245**
Prudential Borrowing	60,948	63,095	11,242	2,063	1,451	**138,799**
Grant & Contributions	54,347	127,330	81,041	67,675	103,554	**433,947**
Capital expenditure (from) revenue account	2,070	3,369	369	3,369	3,369	**12,546**
Leasing	205	531	202	0	0	**938**
Section 106	1,661	125	125	125	0	**2,036**
TOTAL RESOURCES	**123,194**	**199,239**	**98,068**	**74,321**	**108,833**	**603,655**

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

The main driver for interest rates in the UK in 2017/18 will be the UK’s progress in negotiating a smooth exit from the European Union. In the short term financial markets appear to be staying strong in the wake of the referendum, how long this will continue whilst there is such little detail surround the terms of Brexit remains to be seen.

The Authority’s treasury advisor Arlingclose believe that the UK Base Rate will remain at 0.25% during 2017/18. However, the fall and continuing weakness in Sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher and The Bank of England has highlighted that excessive levels of inflation will not be tolerated leading to the belief that a Base Rate rise is not impossible.

2.4.5 Borrowing

Based on current estimated levels of spend the expected long term debt position of the authority at 31st March 2017 is as follows:

Table 11: Estimated Long Term Borrowing at 31st March 2017

Type of Debt	Total £m
PWLB	203.9
Money Market Loans	58.0
Stock Issue	12.0
Transferred Debt (other authorities)	15.4
PFI, Finance Lease & Other	72.8
Total Long Term Liabilities	**362.1**

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 such as the UK Municipal Bonds Agency plc; forward starting loans (where the interest rate is fixed in advance, but the cash is received in later years), other institutions authorised by the Prudential Regulation Authority or approved for investments within the Council Investment Strategy and Policy.

Given the 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 2017/18 is summarised below:

Table 12: 2017/18 Borrowing Requirement (excluding PFI & finance leases)

Underlying Borrowing Requirement	2017/18 £m	2018/19 £m	2019/20 £m
New funds to finance the Capital Programme	60.9	63.1	11.2
Minimum Revenue Provision (debt repayment provision)	(7.8)	(9.8)	(12.8)
Other, including transferred debt repayments	(1.1)	(1.3)	(1.4)
Forecast increase/(decrease) in borrowing requirement	52.0	52.0	(3.0)

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 City Centre Leisure Facility and Friargate. In recent years the high level of City Council investments has ensured that the Council has not needed to borrow. The proposed early payment of the Council’s 3 year pension liability in 2017/18 will reduce investment balances over the coming 3 years. This will increase the likelihood that the City Council will need to borrow during the coming year or 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 the level of investment balances, the objectives underpinning the Treasury Management Strategy and the forecast borrowing requirement for 2017/18 and future years, the Section 151 Officer will undertake the most appropriate form of borrowing depending on prevailing interest rates at the time.

2.4.6 **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.

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

- For capital expenditure incurred before 1st April 2008, the Council will set MRP as a fixed charge of 2% pa of the relevant element of the Capital Financing Requirement, adjusted for the Adjustment A;

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

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

- Voluntary revenue provision will not be made and capital receipts not set aside to repay debt, unless approved in line with the financial procedure rules.

2.4.7 **Capitalisation of Interest** ~ Under the accounting code of practice authorities are able to capitalise interest on capital schemes during the construction period of the scheme. However, it is not currently Coventry City Council’s policy to do this. It is proposed that with effect from 2016/17, the policy within the Treasury Management Strategy is changed so that interest costs on “qualifying assets” are capitalised, where these are material. The impact of this change in policy will be to reduce the charge to revenue in the short term, with an increase over the long term as the capital costs of schemes is increased by the amount of the interest incurred during construction.

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, the government and registered providers, largely for fixed durations and rates of interest. During 2016/17 the amount held in these investments has ranged between £50m and £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 2016/17 the amount held in these investments has ranged between £40m and £85m.
- Corporate Bonds, which are investments issued by companies other than banks and registered providers. These allow local authorities to reduce their exposure to bail in risk. During 2016/17 the amount held in these investments has been anything up to £35m

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 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 and the threat of "bail in" risk it is proposed that:

a) the maximum limit for unsecured investments with individual counterparties is reduced from £10m to £8m. Similarly, for secured investments which are not subject to "bail in", the maximum limit will be reduced from £20m to £16m. These limits were established through advice from the Council's Treasury advisors using an estimate of the Council's maximum investment balance for 2017/18, including investments temporarily used to meet cashflow needs (total £150m). 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. If the Authority's current account banks rating falls below this, overnight balances will be minimised to as close to zero as possible.
c) Non-credit rated building societies and challenger banks are included on the counterparty list as an unsecured bank deposit with no credit rating with a £1m investment limit. An unrated building society or challenger bank will only be used where independent credit analysis by the City Council's advisors shows them to be suitably creditworthy. In addition, the regulatory framework governing building societies and insolvency regime provides comfort;
d) Corporate bonds are included on the counterparty list with a reduced £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) Registered providers are included on the counterparty list with a reduced £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;
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 £4m.

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.

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 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 13.33% in 2016/17 to 14.53% in 2018/19. This increase reflects the increased levels of prudential borrowing funded spend within the proposed 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 7**, 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 2017/18 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 2016 (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 £0.2m of spend to be resourced from leasing in 2017/18. 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 27th January 2017. 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 2.

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 2017. The proposed profile of these changes are set out in Appendix 1.

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 report sets out proposals that will deliver a balanced budget over the medium term which will take the Council to the end of the period covered by the Government's 4 year funding settlement announced last year. New funding arrangements are anticipated to be put in place for 2020/21 which will represent the start of a new period of uncertainty for Local Government. However, on the basis of the budget proposals within this report the Council will be in a strong position to meet the financial challenges that it is likely to face. It will remain key for the Council to deliver the savings proposals that have been assumed within the Budget and to continue to seek efficient delivery of services into the future.

5.1.2 Financial Implications – Reserves

The Local Government Act 2003 requires the Chief Financial Officer to give assurance on the adequacy of reserves of the Authority for which the budget provides. The final position of reserve balances carried forward into 2017/18 will not be known until finalisation of the 2016/17 accounts and reserve levels will be reviewed at that time. The total revenue reserve balances available to the Council at the end of 2015/16 stood at £57m. Other reserve balances incorporate reserves owned by schools and outside the Council's control, which stood of £26m and reserves set aside to fund capital schemes of £12m. Explanations for the balances were set out in the Council's Financial Outturn Report considered by Cabinet in July 2016. The level of balances is set out in the table below.

Table 13: 2015/16 Reserve Balances

Reserves	Balance at 31st March 2015 £000	Increase/ (Decrease) £000	Balance at 31st March 2016 £000
General Fund Balance	(5,160)	1,336	(3,824)
Non-Schools Revenue Reserves:			
Private Finance Initiatives	(11,061)	(710)	(11,771)
Potential Loss of Business Rates Income	(7,100)	4,430	(2,670)
Early Retirement and Voluntary Redundancy	(5,109)	(7,391)	(12,500)
Achievement of Future Savings	(3,424)	2,532	(892)
Birmingham Airport Dividend	0	(4,400)	(4,400)
Children's Social Care	(3,000)	1,000	(2,000)
Leisure Development	(1,459)	583	(876)
Public Health	(1,402)	365	(1,037)
Health and Social Care Schemes	(1,417)	1,137	(280)
Vehicle Purchase Programme	(1,547)	1,547	0
Troubled Families	(710)	9	(701)
Insurance Fund	(2,912)	510	(2,402)
Management of Capital	(2,112)	(225)	(2,337)
Other Corporate	(2,369)	920	(1,449)
Other Directorate	(6,434)	(487)	(6,921)
Other Directorate funded by Grant	(4,478)	1,377	(3,101)
Non-Schools Revenue Reserves	(54,534)	1,197	(53,337)
Schools Reserves:			
Schools (specific to individual schools)	(18,050)	(1,933)	(19,983)
Schools (for centrally retained expenditure)	(6,471)	630	(5,841)
Total Schools Reserves	(24,521)	(1,303)	(25,824)
Capital Reserves:			
Useable Capital Receipts Reserve	0	(6,660)	(6,660)
Capital Grant Unapplied Account	(384)	(5,352)	(5,736)
Total Other Reserves	(384)	(12,012)	(12,396)
Total Reserves	(84,599)	(10,782)	(95,381)

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. Schools resereves are set aside exclusively for the purpose of supporting schools expenditure and capital reserves are set aside to support capital expenditure. Local authority reserves must also be viewed in the context of the risks that are faced, set out below, in section 5.1.4.

The Council’s external auditors, Grant Thornton, have expressed the view previously 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.

For all of these reasons it is not appropriate to apply reserves on a regular basis to support the revenue position. The final Budget proposals include a contribution to reserves in 2018/19 which will then be used to balance the 2019/20 budget as part of a medium term strategy.

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 2017/18 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 2017/18 directorate-based budgets (including schools) and Corporate commitments both for capital and revenue purposes.
iv) The level of uncommitted General Fund Reserves provides a sufficient level of short-term resource to meet any other unforeseen eventualities (within reasonable limits of assessed risk) balanced against pressures to not hold an excessive level of reserve balances.

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

5.1.3 <u>Financial Implications – Assurance on the Robustness of the Estimates</u>
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 and the Efficiency Plan submitted to Government in 2016.
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

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.

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

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

5.1.4.2 **Children's Social Care Services –** The volume of cases and the cost of care continues to represent a large service and budget pressure. 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.

5.1.4.3 **Delivering the Base Programme** – the existing base programme includes a number of transformation programmes which are fundamental in improving the efficiency of the Council through the development of new ways of working and interacting with our customers. If not managed successfully or implemented in the planned timescale, this will have a significant financial impact on the authority and its ability to deliver services.

5.1.4.4 **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 further action to ensure an appropriate balance between the budgets in this area and the level of activity in line with Council policy.

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

- New Regeneration projects within the city centre including the start of the City Centre South development.
- 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.
- A range of significant highway and city centre infrastructure projects including the Whitley South infrastructure project to improve major road links
- The Nuckle project to improve local rail connections bring in the enhanced train service and new platform at Coventry alongside the development of the Coventry Station Masterplan
- Working with local partners including the Local Enterprise Partnership and involving initiatives such as the Growth Deal to invest in business, regeneration and infrastructure locally.
- Financial arrangements made on commercial terms to help support local organisations and 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.

5.1.4.6 **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 has been brought forward locally with the Council's participation in the West Midlands 100% Business Rates Pilot, with the proportion of business rates retained locally increasing from 49% to 99% for 2017/18. The longer term changes represents a resource risk for the Council and the buoyancy of local Business Rates and Council Tax is fundamental for the its financial sustainability. However, due to the nature of accounting for these local income sources, the risk applies to future years such that the 2017/18 budget estimates are secure whilst the Business Rates Pilot is on a no detriment basis.

5.2 Legal implications

The proposals in this report are designed to meet the Council's statutory obligations in relation to setting a balanced 2017/18 budget by mid-March 2017. This includes the duty to report to the Council on the robustness of the estimates provided and the adequacy of the financial reserves in place. Section 31A of the Local Government Finance Act 1992 (as amended) and Section 25 of the Local Government Act 2003 refer.

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 impact on front-line services. The budget is developed within the context of the approved Medium Term Financial Strategy, which in turn rests on the principles set out for the City within the Council Plan. In this way Budget proposals are aligned to existing policy priorities. There are some initial signs that the Council is moving into a new phase of financial self-sufficiency and it wil want to ensure that its key objectives and financial strategies are aligned as this situation develops.

6.2 How is risk being managed?

The inability to deliver a balanced budget is one of the Council's key corporate risks. The proposals within this report are aimed directly at trying to mitigate this risk. The scale and scope of 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 programme will continue to be monitored robustly to ensure that Strategic Management Board and members are kept up to date with the progress of these reviews. The establishment of a balanced medium term Budget position is a significant step forward however and places the Council in a stronger financial position than it has been in recent years.

6.3 What is the impact on the organisation?

The savings proposals within the Council's bottom line mean 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 in previous Budgets but relating to future years will be met largely from savings in employee budgets. A new Early Retirement and Voluntary Redundancy programme is being implemented in order to continue the reductions in employee numbers needed to deliver new and existing savings plans. Reduced employee numbers across the Council plus the need to do things differently will further accentuate the importance of new ways of working and will change the nature of the services provided, and the way the Council works.

6.4 Equalities / EIA

As indicated in the table attached as Appendix 3, some of the proposals contained in this year's Budget Report have been the subject of equality and consultation analyses (ECAs); further information on these can be found in the overview table. Many of the other savings are at the early stages of development and will require detailed ECAs to be carried out at the relevant time. The equalities impact will therefore be considered by elected members at the appropriate stages of subsequent decision making for the individual proposals.

6.5 Implications for (or impact on) the environment

None

6.6 Implications for partner organisations?

None

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