Coventry City Council

**Public report**
Cabinet

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| Cabinet | 20th February 2018 |
| Council | 20th February 2018 |

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

**Director Approving Submission of the report:**
Deputy Chief Executive Place

**Ward(s) affected:**
**All**

**Title:**
Budget Report 2018/19

**Is this a key decision?**
Yes - The report sets the Council's Revenue Budget for 2018/19 incorporating revenue spending and savings decisions for 2018/19 and future financial years and the Capital Programme for 2018/19 to 2022/23.

**Executive Summary:**
This report follows on from the Pre-Budget Report approved by Cabinet on 28th November 2017 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 2018/19 incorporating the following details:

- Gross budgeted spend of £727m (£24m and 3% higher than 2017/18).
- Net budgeted spend of £235m (£2m higher than 2017/18) funded from Council Tax and Business Rates less a tariff payment of £9.5m due to Government.
- A Council Tax Requirement of £127.3m (£8.7m and 7% higher than 2017/18), reflecting a City Council Tax increase of 4.9% detailed in the separate Council Tax Setting report on today's agenda.
- A number of expenditure pressures caused by the impact of demographic pressures on Council services.
- A Capital Programme of £262.5m (£141.5m and 117% more than the latest estimated 2017/18 programme) including expenditure funded by Prudential Borrowing of £93m;
- An updated Treasury Management Strategy.

It is important to note at the outset that the Council's gross and net budget figures have increased compared with 2017/18 but this still represents a real-terms reduction in resources available to the Council after taking account of inflation.

The financial position in this Budget Report is based on the Final 2018/19 Local Government Finance Settlement and incorporates anticipated reductions in funding over the next 3 years. This position is particularly uncertain for financial year 2020/21 which could be subject to the combination of a new national Spending Review, a revised allocation model within the Local

Government sector and a new national 100% Business Rates model. As a result there is huge uncertainty around Local Government funding which makes it impossible to provide a robust financial forecast at this stage. Nevertheless, initial assumptions and existing trends are sufficiently firm to indicate that there will in all certainty be a substantial gap for that year. The view of the Council's Director of Finance and Corporate Services is that the Council should be planning for such a position.

Along with the other 6 West Midlands councils, Coventry is taking part in a 100% Business Rates Pilot scheme. This is enabling the Councils to retain 99% of Business Rates income including any growth against an historic baseline which would otherwise have been returned to the Government. The financial model and assumptions that support the Pilot have been incorporated within the position reported here.

The Pre-Budget Report was based on flexibility to increase Council Tax by up to 2% without holding a local referendum on the matter and further flexibility, up to a maximum of 3%, recognising the increasing pressure on Adult Social Care (ASC) services across the country. The Government has subsequently announced that the Council Tax referendum limit has been raised to 3%. However, the budget recommended in this report and the associated Council Tax proposals in the report that accompanies it does not incorporate this additional flexibility. 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.

The Council's medium term financial position includes the impact of reductions in Government funding that had already been anticipated and savings programmes that have been approved previously. At the start of the 2018/19 Budget Setting process the Council faced a financial gap of £12m after taking into account including a temporary delay in the likely achievement of some savings and the emergence of new expenditure pressures. In broad terms, the Budget has been balanced by additional Council Tax and Business Rates resources and savings in contingency budgets, capital financing costs and several other largely technical areas. 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 two-year balanced budget.

Given the forthcoming national proposals for local government finance to be based on a 75% Business Rates model from 2020/21, the vibrancy and growth of the city is vital to ensure a secure level of Business Rates income. Proposals within the recommended Capital Programme are designed to help achieve this and amount to £262m in 2018/19. These represent an ambitious approach to investing in the City and include the near-completion of the Council's new city centre leisure facility, progression of the City Centre South, Connecting Coventry and Coventry Station Master Plan schemes and establishment of the joint venture vehicle to accelerate a programme of building at Friargate. Over the next 5 years the Capital Programme is estimated to be £921m and represents the largest ever investment by and through the City Council.

Coventry's success in being announced in December 2017 as the UK City of Culture for 2021 will lead to some exciting developments and events across the city over the next few years. This includes an impetus to implement some the Council's capital projects on an accelerated basis and planning has already begun to examine the scope for and implications of this.

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. The Strategy and other relevant sections of this report reflect the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) updated Treasury Management Code and Prudential Code for Capital Finance insofar as they relate to 2018/19.

**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 2018/19 revenue budget of **£727m** in **Table 1** and **Appendix 3,** 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 Director of Finance and Corporate Services' comments confirming the adequacy of reserves and robustness of the budget in **Section 5.1.2 and 5.1.3.**

(4) Approve the Capital Programme of £262.5m for 2018/19 and the future years' commitments arising from this programme of £659.4m between 2019/20 to 2022/23 detailed in **Section 2.3** and **Appendix 4**.

(5) Approve the proposed Treasury Management Strategy for 2018/19 and Minimum Revenue Provision Statement in **Section 2.4,** the Investment Strategy and Policy at **Appendix 5** 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 | Budget Financial Proposals – Changes to Base Position |
| 2 | Consultation Responses |
| 3 | Summary Revenue Budget |
| 4 | Capital Programme 2018/19 to 2022/23 |
| 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 – February 20th 2018

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**Budget Report 2018/19**

**1. Context (or background)**

1.1 This report seeks approval for the 2018/19 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 2018/19 Government funding allocation and forecasts of the Council's medium term revenue financial position. This will represent the third 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 28th November 2017. They have been established in line with the Council's current Medium Term Financial Strategy and Council Plan,

1.3 In the Government announced the Final Local Government Finance Settlement for 2018/19 on 6th February 2018. 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 through the Local Government Finance Settlement had fallen by c£107m in the period between 2010 and 2017/18 and the latest position shows a further reduction of c£6m for 2018/19. At the conclusion of last year's Budget process the Council was projecting a balanced budget for 2018/19. However through the current Budget exercise it emerged that some existing savings plans would not be delivered in 2018/19 to the original timescale whilst new budget pressures have also arisen. This resulted in a budget shortfall of £12m in 2018/19 rising to £21m by 2021/22. These developments and the technical savings proposals which alleviate the budgetary gap in part were incorporated within the Pre-Budget Report approved by Cabinet in November.

1.5 In 2017/18 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 3% 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 a Council Tax rise of 4.9%. The Government subsequently increased the referendum limit to 3% for 2018/19 which would increase the total maximum allowable to 6%. However, the recommended Budget within this report does not assume taking this up the additional flexibility. As a result, the budget being proposed, continues to be on the basis of increasing Council Tax by 4.9%.

1.6 Coventry is entering a period of large and sustained infrastructure and other capital investment and the Capital Programme is set out in section 2.3. Recent years have seen the Council make great strides in attracting external grant funding into the city, working with the West Midlands Combined Authority to secure resources as part of the Devolution Deal and developing local self-financing projects within the city. The UK City of Culture 2021 announcement is likely to attract further investment into the city and will also provide an imperative to bring forward some existing plans. Whilst this will represent an exciting period for the city it will also pose a significant challenge in managing a number of complex and overlapping projects within a relatively compact city. Work has begun to establish a robust project based approach to managing the risks involved in this. In terms of the wider Capital Programme it is worth emphasising that the vast majority of the funding to deliver these schemes comes from sources that can only be used in one-off capital schemes and therefore is not available to support the revenue budget.

1.7 The overall Council Capital Programme is estimated to be in excess of £921m over the next 5 years which will help to spearhead growth, economic development and job creation in the city and greater self-sufficiency for the City Council through the generation of higher tax revenues.

1.8 Revenue Resources

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

**Table 1: Funding of Revenue Budget**

| 2017/18 £000s | | 2018/19 £000s | (Increase)/ Decrease £000s | Increase/ (Decrease) |
|---|---|---|---|---|
| (118,494) | A: Council Tax Requirement | (127,253) | (8,759) | 7% |
| (113,988) | B: Retained Business Rates | (107,537) | 6,451 | (6%) |
| 0 | C: Revenue Support Grant and Top-Up | 0 | | |
| (390,098) | D: Specific Grants (see section 3.4) | (401,964) | (11,866) | 3% |
| (80,783) | E: All Other Income | (90,168) | (9,385) | 12% |
| (232,482) | Funding of Net Budget (A + B + C) | (234,790) | (2,308) | 1% |
| (703,363) | Funding of Gross Budget (A + B + C + D + E)** | (726,922) | (23,559) | 3% |

Line A above reflects the city Council Tax increase of 4.9%, growth in the city's tax-base and changes to the assumed level of discounts and allowances. The majority of the movement on lines B and C reflects reduction in funding within the Local Government Finance Settlement plus any local movement in Business Rates income. This incorporates a tariff payment of £9.5m paid to Government. In addition to other Fees and Charges, line E includes Council Tax and Business Rates Collection Fund surpluses, dividend payments and contributions from reserves.

1.8.2 Due to impending changes in the Local Government Finance model and due to the Council's participation in the West Midlands Business Rates Pilot it is becoming more difficult to provide robust estimates of future resources. The Council will suffer a loss of Government resources of £6m in 2018/19 and current financial modelling assumes a similar trajectory of resource loss in 2019/20 and 2020/21. The reality is that the final year of the current medium term plan could be subject to significant fluctuation depending on the overall allocation of resources to Local Government and the allocation to individual local authorities within the model.

1.8.3 In addition, due to transfers in responsibility and other changes in the local government finance model it is difficult to provide precise and robust analysis of historical movements over time. However, the indicative position is that 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 and the equivalent funding per household figure for 2018/19 has fallen by more than £850 over the period.

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

1.8.5 A combination of lower resource settlements from Government and the Business Rates Pilot referenced above have marked a departure for the Council. For the first time in 2017/18 the Council needed to make a tariff payment (of £0.7m) to Government in contrast to the top-up payment that it used to receive from Government under previous funding arrangements. This 2018/19 tariff payment of £9.5m indicates that the Council is judged by Government to be earning a greater level of Council Tax and retained Business Rates than it requires for its assessed spending needs. Last year's Budget Report explained that this shift reflects a combination of cuts to Government funding for local government and to a limited degree, initial indications that the Council is more self-reliant (in relative terms compared to other areas) and able to fund its own spending requirements. It is important to treat this development with caution given that the city continues to have some high levels of need and pockets of deprivation. Nevertheless, it emphasises the importance for the Council of generating greater resilience and prosperity in the local economy in order for the city to be able to support itself under the Government's intention for local government to become self-sufficient.

1.8.6 As part of the most recent Local Government Settlement the Government announced a national 75% Business Rates retention model to operate from 2020/21 which extends the current 50% model. Further details are awaited on the implications for authorities in 100% Pilots such as Coventry.

1.8.7 Specific Grants – In overall terms specific revenue grant funding has increased between 2017/18 and 2018/19 from £390m to £398m in particular due to increases in Better Care Fund and Business Rates related grant resources. The total level of funding received to fund city schools (including the Dedicated Schools Grant and Pupil Premium Grant) is expected to be £184m, compared with £194m in 2017/18. Housing Benefit Subsidy payments have been estimated at £114m, whilst other significant grants include Public Health (£22m), adult social care funding (£17m) including the Improved Better Care Fund, New Homes Bonus (£5.1m) and assumed Adult Education funding (£5.6m).

## 2. Options considered and recommended proposal

### 2.1 Section Outline

2.1.1 This section details the specific proposals recommended for approval. Section 2.2 below outlines the changes to the savings and cost pressures that were set out as part of the Pre-Budget Report in November. The full list of final proposals is provided in **Appendix 1.** Approval is being sought for these and the overall budget and Council Tax Requirement in **Appendix 3**. These are based on a City Council Tax rise of 4.9%, reflecting a 1.9% "base" rise plus 3% in respect of Adult Social Care in line with Government policy.

2.1.2 The report seeks approval for a 2018/19 Capital Programme of £262m compared with the initial 2017/18 programme of £121m. 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 28th November 2017 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 2018/19 and, based on current information, form the basis of a balanced budget also for 2019/20.

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

| | **Appx 1 Line Ref** | **2018/19 £m** | **2019/20 £m** | **2020/21 £m** |
|---|---|---|---|---|
| Pre-Budget Report Position | | 2.8 | 3.6 | 19.0 |
| Local Government Finance Settlement & New Homes Bonus | | (0.4) | 1.6 | 3.9 |
| Place Directorate Savings | 4 | (0.2) | (0.2) | (0.2) |
| Homelessness – Housing Benefit Impact | 9 | 1.2 | 0.7 | 0.2 |
| Local Government Pay Award | 19a | 1.8 | 3.8 | 3.8 |
| BBC Biggest Weekend | 19b | 0.3 | 0.0 | 0.0 |
| Council Tax and Business Rates Tax-Base & Estimated Outturn | 20 | (0.9) | (6.0) | (2.0) |
| Inflation Contingencies | 21 | (0.2) | (0.3) | (0.4) |
| Asset Management Revenue Account | 22 | (0.6) | (2.5) | 0.2 |
| West Midlands Combined Authority Levy and Contribution | 23 | (0.3) | (0.4) | (0.4) |
| Coventry/Solihull Waste Disposal Co.Dividends | 24 | (1.3) | (1.0) | (1.0) |
| Future Council Tax Increase to 3% | 25 | 0.0 | (1.2) | (2.4) |
| Reduce Contribution to Reserves | 27 | (2.2) | 1.9 | 0.0 |
| **Final Budget Position** | | **0.0** | **0.0** | **20.7** |

One further change is being proposed as part of this report. In setting the 2017/18 Budget, Council established forward savings targets for Employment Costs (from workforce reforms) of £1m in 2018/19 rising to £5m thereafter. Plans have been progressed to implement the savings but it is estimated currently that £442k of the target will not be deliverable in 2018/19. Therefore it is proposed within this budget that a virement is made from the existing £2.5m budget for Early Retirement and Voluntary Redundancy (ER/VR) to cover this shortfall. In line with existing practice, any ER/VR costs incurred in excess of the remaining £2,058k ER/VR budget wil be managed from within the reserve established for this purpose. The reserve stood at £8.3m as at 31st March 2017.

2.3 Capital Programme

2.3.1 In **Appendix 4** there are proposals for a Capital Programme of £262m. This compares with the current projected 2017/18 programme of £121m. The proposals represent the largest planned programme in the city's recent history by a very significant margin and contain a number of strategically significant schemes as set out below. It is important to be clear that it will be extremely challenging for the Council to deliver even a sizeable proportion of this programme whilst the city's success in being announced as the UK City of Culture in 2021 will inevitably bring greater pressure to bear to accelerate some of the schemes involved.

2.3.2 A full 5-year programme is detailed in **Appendix 4** with the main 2018/19 planned expenditure as follows:

- £91.8m of investment in the City's Highways and Public Realm infrastructure. This includes infrastructure to support the research and development campus located at Whitley South, UK Central and Connectivity programmes as part of the Strategic Transport Investment Programme and provision for a new multi storey car park at Salt Lane.
- £31m investment in a second building within the Friargate Business District part funded by the WMCA, including creation of a joint venture to take forward the proposals.
- £39.7m for the initial phases of the grant funded National Battery Manufacturing Development facility.
- £21.5m investment in Sports and Leisure facilities, including the latter part of the build phase for the new £33m Destination Leisure Facility and completion of the 50m pool at the Alan Higgs Centre.
- A £19m programme in 2018/19 within the Education and Skills Portfolio, most of which relates to investments in schools across the city.
- £17m of Growth Deal funding to support economic growth and Small & Medium Size Enterprises in the city.
- £16m 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.
- The first £9m of an eventual £91m programme to take forward City Centre South – the regeneration of a major part of the City Centre partly funded by the WMCA.

2.3.3 The 2018/19 Programme requires £93m of funding from Prudential Borrowing, £47.4m of which relates to specific approval for the Friargate Joint Venture, the City Centre Destination Leisure Facility and Whitley Depot redevelopment. A further £45.6m relates to non-scheme specific borrowing resulting from spending decisions made in previous years. Over the course of the 5 year programme set out, the Council is set to incur over £200m of borrowing. This borrowing has been the subject of previous decisions and will, overwhelmingly, be supported by business cases that have identified income streams to cover the capital financing costs, all of which is factored into the Council's medium term financial plans. Nevertheless, in comparison to the Council's existing level of borrowing this is a significant shift in the Council's external indebtedness.

2.3.4 In addition to the opportunities to receive additional external funding, the Director of Finance and Corporate Services will continue to explore options to fund the programme in the most appropriate way depending on the balance of resources, including using capital receipts to reduce the overall need to borrow. In reality, any displacement of borrowing from this source is likely to be at a comparatively low level based on the current level of available receipts. In addition to the Prudential Borrowing referred to above, the other main source of funding for the 2018/19 Capital Programme is £154m of Capital grants as follows.

**Table 3: Capital Grant Funding**

| Grant | 2018/19 £m | 2019/20 £m | 2020/21 £m | 2021/22 £m | 2022/23 £m | Total £m |
|---|---|---|---|---|---|---|
| Disabled Facilities Grant | 4.4 | 3.4 | 3.4 | 3.4 | 3.4 | 18.0 |
| Department for Transport | 25.6 | 13.4 | 21.2 | 12.0 | 2.7 | 74.9 |
| Education Funding Agency | 10.1 | 8.2 | 2.6 | 2.6 | 2.6 | 26.1 |
| ERDF | 2.9 | 0.0 | 0.0 | 0.0 | 0.0 | 2.9 |
| Growth Deal | 15.4 | 27.4 | 6.1 | 0.0 | 0.0 | 48.9 |
| Highways England | 1.9 | 7.8 | 4.6 | 9.5 | 9.5 | 33.3 |
| Heritage Lottery Fund | 0.0 | 1.0 | 0.2 | 0.0 | 0.0 | 1.2 |
| Innovate UK | 40.0 | 49.2 | 0.0 | 0.0 | 0.0 | 89.3 |
| West Midlands Combined Authority | 40.0 | 71.0 | 92.7 | 73.7 | 24.9 | 302.2 |
| Sports England | 1.2 | 0.4 | 0.0 | 0.0 | 0.0 | 1.5 |
| Ministry of Housing, Communities & Local Government | 0.0 | 13.0 | 0.0 | 0.0 | 0.0 | 13.0 |
| All Other Grants & Contributions | 12.1 | 7.5 | 3.1 | 16.2 | 16.2 | 55.2 |
| **TOTAL PROGRAMME** | **153.7** | **202.2** | **134.0** | **117.3** | **59.3** | **666.5** |

2.3.5 **Forecast Capital Programme**
The Programme included has been evaluated to identify a likely best profile of spend based on current knowledge of individual projects. In part this is to maximise the amount of programmed expenditure to meet expectations of grant funding bodies but there are also local expectations to inject momentum into the programme to ensure sufficient progress is made ahead of other developments, including the UK City of Culture in 2021. In overall terms, the Programme represents not only the largest in recent memory but also involves a number of complex and overlapping projects within a relatively compact city. Delivery of even a sizeable proportion of the programme will represent a significant challenge for the Council and section 5.1.4 recognises the risks inherent in this. Given the

innovation involved in some of the projects, the milestones that need to be achieved to satisfy grant funded bodies and the potential for delay given the interdependency of some schemes, it should be recognised that the profile for some schemes could shift significantly between years, with the potential for large amounts of expenditure being rescheduled into later periods for individual projects.

A summary of the proposed programme including existing commitments and funding sources is outlined below. This includes expenditure rescheduled into 2018/19 as a result of the 2017/18 budgetary control process. Full details of the proposed programme are included in **Appendix 4.**

**Table 4: 2018/19 – 2022/23 Capital Programme (Expenditure & Funding)**

| **Expenditure** | **2018/19 £'000** | **2019/20 £'000** | **2020/21 £'000** | **2021/22 £'000** | **2022/23 £'000** | **Total £'000** |
|---|---|---|---|---|---|---|
| Strategic Finance and Resources | 1,540 | 2,650 | 1,400 | 1,000 | 0 | **6,590** |
| Education and Skills | 19,286 | 9,975 | 2,826 | 2,601 | 2,601 | **37,289** |
| Jobs and Regeneration | 191,982 | 189,260 | 172,977 | 112,458 | 94,814 | **761,491** |
| City Services | 23,642 | 24,765 | 10,306 | 5,355 | 2,526 | **66,594** |
| Adult Services | 4,352 | 3,402 | 3,402 | 3,402 | 3,402 | **17,960** |
| Public Health and Sport | 21,549 | 9,641 | 378 | 255 | 16 | **31,839** |
| Community Development | 115 | 0 | 0 | 0 | 0 | **115** |
| **TOTAL PROGRAMME** | **262,466** | **239,693** | **191,289** | **125,071** | **103,359** | **921,878** |

| **Funding** | **2018/19 £'000** | **2019/20 £'000** | **2020/21 £'000** | **2021/22 £'000** | **2022/23 £'000** | **Total £'000** |
|---|---|---|---|---|---|---|
| Capital Corporate Resources | 1,073 | 2,451 | 400 | 0 | 0 | **3,924** |
| Capital Unringfenced Receipts | 5,930 | 3,820 | 3,119 | 500 | 250 | **13,619** |
| Capital Ringfenced Receipts | 4,010 | 230 | 230 | 0 | 0 | **4,470** |
| Prudential Borrowing | 93,063 | 29,668 | 49,434 | 3,556 | 43,691 | **219,432** |
| Grant & Contributions | 153,727 | 202,209 | 133,982 | 117,280 | 59,305 | **666,503** |
| Capital expenditure (from) revenue account | 3,369 | 442 | 3,396 | 3,458 | 0 | **10,665** |
| Leasing | 462 | 100 | 170 | 22 | 97 | **851** |
| Section 106 | 832 | 753 | 558 | 255 | 16 | **2,414** |
| **TOTAL RESOURCES** | **262,466** | **239,693** | **191,289** | **125,071** | **103,359** | **921,878** |

**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 2.4.7**).

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 Over recent months both CIPFA and the government have consulted on changes to a number of treasury and capital finance related statutory codes:-

- Treasury Management Code of Practice - CIPFA;
- Prudential Code (for capital investment) - CIPFA;
- Investment Guidance – Government;
- Minimum Revenue Provision/MRP (repayment of debt) – Government.

The final documents have recently been issued, to apply to 2018/19, with the exception of the MRP guidance which will apply from 2019/20.

The context of the changes is a concern in government that local authorities might be taking on too much financial risk by investing in a wider range of areas including property and shares, in order to broaden their income base and increase financial returns. In addition, the government has also been concerned that some authorities are not making sufficient provision to repay debt, through the Minimum Revenue Provision (MRP) charge.

The changes in respect of investments focus mainly on the management of investments, together with the associated policy and reporting structure, whilst the MRP guidance seeks to ensure that authorities make adequate provision to repay debt.

The Council is confident both that all its investments have been made with due regard to a prudent and balanced approach and that it is making sufficient MRP charges.

Given the timescale, in particular the closeness of the setting of local authority budgets, it is recognised that authorities will need to work on their approaches under the new guidance and codes during 2018/19. Any proposed revisions to policies and procedures will be reported on in due course.

2.4.5 Interest Rate Forecast

The Authority's treasury adviser Arlingclose have previously advised that the UK Bank Rate will remain at 0.50% during 2018/19, following the historic low of 0.25%. Although the Bank of England has referred to prospective increases in Bank Rate being at a gradual pace and to a limited extent, very recent announcements by the Bank give reason to keep this under close scrutiny in the coming months.

2.4.6 Borrowing

Based on current estimated levels of spend the expected long term debt position of the authority at 31st March 2018 is as follows:

**Table 5: Estimated Long Term Borrowing at 31st March 2018**

| Type of Debt | Total £m |
|---|---|
| PWLB | 196.6 |
| Money Market Loans | 38.0 |
| Stock Issue | 12.0 |
| Transferred Debt (other authorities) | 14.3 |
| PFI, Finance Lease & Other | 70.4 |
| **Total Long Term Liabilities** | **331.3** |

The main funding sources currently used by Coventry are:

- The Public Works Loans Board (PWLB) or any successor body - this is, in effect, the Government. Loans may be obtained at variable or fixed rates of interest.
- Money Market Loans - these are loans obtained from financial institutions and include LOBO (lender's option, borrower's option) loans typically with an initial fixed rate for 3-4 years, then variable thereafter. Should the lender exercise the option and seek to increase the rate beyond a certain level the borrower can choose to repay the loan, refinancing it at that point in time. This is, in effect, a call option for the lending bank. Coventry has £38m of such loans and in the event of a "call" one approach that would be considered would be to repay the loan, refinancing it from another source, such as the PWLB;
- Stock Issue (Bond issue) – this is the authority's £12m stock issue;
- UK Local Authorities – 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 2018/19 is summarised below:

**Table 6: 2018/19 Borrowing Requirement (excluding PFI & finance leases)**

| | 2018/19 £m | 2019/20 £m | 2020/21 £m |
|---|---|---|---|
| New funds to finance the Capital Programme | 93.1 | 29.7 | 49.4 |
| Minimum Revenue Provision (debt repayment provision) | (11.0) | (13.8) | (18.0) |
| Other, including transferred debt repayments | (1.3) | (1.4) | (1.5) |
| Forecast increase/(decrease) in borrowing requirement | 80.8 | 14.5 | 29.9 |

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 the capital programme as set out earlier in this report. In recent years the high level of City Council investments has ensured that the Council has not needed to borrow but the level of investments has reduced significantly in recent months. In the light of these factors it is likely that the Council will need to borrow in the coming year.

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 2018/19 and future years, the Section 151 Officer will undertake the most appropriate form of borrowing depending on prevailing interest rates at the time.

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

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

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

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

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

- Voluntary revenue provision will not be made and capital receipts not set aside to repay debt, unless approved in line with the financial procedure rules. Amounts voluntarily set aside as capital receipts and revenue provision in previous years will be treated as overpayments of MRP in line with the Statutory Guidance on Minimum Revenue Provision.

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 2017/18 the amount held in these investments has ranged between £20m and £85m;
- 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 2017/18 the amount held in these investments has ranged between £45m and £80m.
- 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 2017/18 the amount held in these investments has ranged between £5m and £15m

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

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

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

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

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

a) the maximum limit for unsecured investments with individual counterparties is reduced from £8m to £6m. Similarly, for secured investments which are not subject to "bail in", the maximum limit will be reduced from £16m to £12m. These limits were established through advice from the Council's Treasury advisors using an estimate of the Council's maximum investment balance for 2018/19, including investments temporarily used to meet cashflow needs (total £120m). Unsecured counterparties have a limit of 5% of this total & secured counterparties have a limit of 10% of this total;

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

Authority's current account bankers, NatWest currently have a credit rating of BBB+ and as such, overnight balances will be minimised as much as is practicable.

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 £6m investment limit. A corporate bond is an investment issued by companies other than banks and registered providers. These investments are not subject to bail in, but are exposed to the risk of the company going insolvent. As a result, corporate bonds will only be used when the company has a credit rating of A- or better;

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

f) Registered providers are included on the counterparty list with a reduced £6m 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 £6m.

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 advisors provide a vehicle through which quality is managed. In addition, within the City Council, senior managers within the Place Directorate meet on a periodic basis to review treasury issues, including the use of advisors.

2.4.10 **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 13.49% in 2017/18 to 14.84% in 2019/20. 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 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 2018/19 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 2017 (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 £0.5m of spend to be resourced from leasing in 2018/19.

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 2018. The Council hosted a survey on its website asking for people's views of the budget proposals and meetings held with the Trades Unions and Chamber of Commerce. The details arising from this consultation are set out in Appendix 2.

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

## 4. Timetable for implementing this decision

4.1 Many of the individual expenditure and savings identified within this report will be implemented from 1st April 2018. The proposed profile of these changes are set out in Appendix 1.

## 5. Comments from the Director of Finance and Corporate Services

This report is concerned wholly with financial matters. The proposals within this report represent the basis of the Council's 2018/19 revenue and capital budget supported by the Council Tax Report that will be considered alongside this one.

5.1.1 <u>Financial implications - Medium Term Position</u>

This report sets out proposals that will deliver a balanced budget for the next two years which will take the Council to the end of the period covered by the Government's 4 year funding settlement announced previously. New funding arrangements are anticipated to be put in place for 2020/21 which will represent the start of a new period of uncertainty for Local Government. The significant financial gap projected currently for that year demonstrates the need for the Council to continue to exercise robust financial disciplines and to take a medium term approach to Budget setting. Nevertheless, the Council remains in a strong position to meet the financial challenges that it is likely to face. It will remain key for 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 <u>Financial Implications – Reserves</u>

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 2018/19 will not be known until finalisation of the 2017/18 accounts and reserve levels will be reviewed at that time. The total revenue reserve balances available to the Council at the end of 2016/17 stood at £51m. Other reserve balances set aside to fund capital schemes stood at £30m. Explanations for the balances were set out in the Council's Financial Outturn Report considered by Cabinet in June 2017. The level of balances is set out in the table below.

**Table 7: 2016/17 Reserve Balances**

| | Balance at 31st March 2016 £000 | (Increase)/ Decrease £000 | Balance at 31st March 2017 £000 |
|---|---|---|---|
| Council Revenue Reserves | | | |
| General Fund Balance | (3,823) | 689 | (3,134) |
| Private Finance Initiatives | (11,771) | 463 | (11,308) |
| Potential Loss of Business Rates Income | (2,670) | 700 | (1,970) |
| Early Retirement and Voluntary Redundancy | (12,500) | 4,239 | (8,261) |
| Birmingham Airport Dividend | (4,400) | 0 | (4,400) |
| Children's Social Care | (2,000) | 2,000 | 0 |
| Leisure Development | (876) | (18) | (894) |
| Public Health | (1,037) | 297 | (740) |
| Health and Social Care Schemes | (280) | 280 | 0 |
| Troubled Families | (701) | 15 | (686) |
| Insurance Fund | (2,402) | 616 | (1,786) |
| Management of Capital | (2,337) | (3,229) | (5,566) |
| Other Corporate | (2,343) | 1,370 | (973) |
| Other Directorate | (6,920) | (1,905) | (8,825) |
| Other Directorate funded by Grant | (3,101) | 298 | (2,803) |
| **Total Council Revenue Reserves** | **(57,161)** | **5,815** | **(51,346)** |
| Council Capital Reserves | | | |
| Useable Capital Receipts Reserve | (6,660) | (13,829) | (20,489) |
| Capital Grant Unapplied Account | (5,736) | (4,001) | (9,737) |
| **Total Council Capital Reserves** | **(12,396)** | **(17,830)** | **(30,226)** |
| **Total Council Reserves** | **(69,557)** | **(12,015)** | **(81,572)** |

Separately, balances owned by the Council's local authority maintained schools and outside the Council's control, stood at £23m at 31st March 2017

| | | | |
|---|---|---|---|
| **School Reserves** | | | |
| Schools (specific to individual schools) | (19,983) | 1,857 | (18,126) |
| Schools (for centrally retained expenditure) | (5,841) | 1,348 | (4,493) |
| **Total School Reserves** | **(25,824)** | **3,205** | **(22,619)** |

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 resererves 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 that the Council's level of reserves is reasonable whilst comparative information shows that these levels are low compared to broadly comparable authorities.

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 Director of Finance and Corporate Services that overall levels are adequate to support the recommended budget for 2018/19 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 2018/19 directorate-based budgets (including schools) and Corporate commitments both for capital and revenue purposes.
iv) The level of uncommitted General Fund Reserves provides a sufficient level of short-term resource to meet any other unforeseen eventualities (within reasonable limits of assessed risk) balanced against pressures to not hold an excessive level of reserve balances.

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

5.1.3 Financial Implications – Assurance on the Robustness of the Estimates

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

i) The budget has been set within the guidelines of the authority's Medium Term Financial Strategy, approved by members, that sets out the broad policies and assumptions that lie behind the Council's medium term financial planning process 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 2018/19 budget and the challenges facing the Council in the next few years will require regular monitoring and potentially corrective action.

5.1.4 Financial Implications - Budget Risks

In setting the budget and implementing the policies that sit behind it, the Council 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 and the current proposed budget anticipates that not all transformation savings identified previously will be delivered in 2018/19. It is essential that work underway continues to progress to ensure safe and secure methods are found to deliver services to children within budget.

5.1.4.3 **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 –** Adult Social Care services continue to operate within a very dynamic environment with cost pressures from changes in living wage rates as well as increasingly complex care packages. Alongside this there is a great deal of uncertainty surrounding longer term resources which is due to be addressed by a green paper in the Summer. Locally, this has been recognised and addressed to some degree by additional resources that have been made available. Nevertheless, this area of activity is naturally difficult to predict and the Council needs to continue to ensure an appropriate balance between the budget available and the level of activity in line with Council policy.

5.1.4.5 **Housing and Homelessness** – This area of activity has risen to greater prominence in financial terms over the last couple of years with rapidly increasing numbers of people needing to be housed. The local circumstances mirror a national picture and it is clear that a range of solutions are required over the medium term. In the interim, this budget has directed some further resources to deal with the shorter term impacts.

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

- New Regeneration projects within the city centre including the start of the City Centre South development.
- Friargate – Joint work with an external developer 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
- Development of the Coventry Station Master Plan to deliver transformational improvements to Coventry Railway Station
- Working with local partners including the Local Enterprise Partnership and involving initiatives such as the Growth Deal to invest in business, regeneration and infrastructure locally.
- Financial arrangements made on commercial terms to help support local organisations and the Council's direct investment in Coombe Abbey Park Limited.

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.

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

5.1.4.8 **Local Government Finance Changes** – the regime in which local authorities work is increasingly one in which risk is transferred from central to local government. This increased localisation has been brought forward locally with the Council's participation in the West Midlands 100% Business Rates Pilot, with the proportion of business rates retained locally amounting to 99% for 2018/19. The longer term changes represent 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 2018/19 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 2018/19 budget by mid-March 2018. 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 Plan**

The Council, in common with all local authorities, will continue to be faced with challenging resource constraints over the coming years, which will inevitably impact on front-line services. The budget is developed within the context of the approved Medium Term Financial Strategy, which in turn rests on the principles set out for the City within the Council Plan. In this way Budget proposals are aligned to existing policy priorities. There are some initial signs that the Council is moving into a new phase of financial self-sufficiency and it 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 savings that have not yet been delivered within the Council's bottom line budget position are such that they represent a significant risk of non-achievement in the future. The savings programme will continue to be monitored robustly to ensure that Strategic Management Board and members are kept up to date with the progress of these reviews. The establishment of a balanced two year Budget position puts the Council in a relatively strong position.

**6.3 What is the impact on the organisation?**

The savings proposals, transformation programmes and in particular the Council's expanding Capital Programme mean that the Council will have to continue to adapt to meet the challenges that it faces both in terms of the way it works and the services it provides. The large savings included in previous Budgets but relating to future years will be met largely from savings in employee budgets, although it is unlikely that the Council will witness the same level of early retirement and voluntary redundancy programmes that have occurred in recent years.

**6.4 Equalities / EIA**

The savings contained in this year's final Budget report are all technical in nature and therefore there is no equality impact in relation to these. For any previously budgeted savings that have not yet been implemented, equality analysis will continue to be carried out by service areas and considered by elected members at the appropriate stages of subsequent decision making.

**6.5 Implications for (or impact on) the environment**

None

**6.6 Implications for partner organisations?**

None

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