

Cabinet

27th November 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:

Pre-Budget Report 2019/20

Is this a key decision?

Yes

Cabinet is being recommended to approve, as a basis for consultation, the spending and savings proposals for 2019/20 and future financial years as adjustments to the Council's Budget.

Executive Summary:

This report outlines as a basis for consultation a set of new revenue budget proposals for 2019/20 to 2021/22 and an overall Council Tax increase for 2019/20 of c2.9% as allowed for within Government guidelines. The final Budget proposals and the Council Tax increase will be subject to Council approval in February.

The Council remains committed to seeking to protect its most vulnerable citizens and to delivering a range of core services to everyone in the city at a time of recent large reductions in Government funding. In last year's budget setting process, the Council approved proposals that indicated a balanced two year position to 2019/20 with a Budget gap in 2020/21. This was despite a number of service pressures affecting the Council and was achieved through a combination of increased tax revenues, new commercial income streams and a number of technical measures.

Moving forward into a new 3 year planning period incorporating financial year 2021/22, an updated position is included within this report reflecting revised estimates and new expenditure pressures. The Council continues to be faced with financial challenges stemming from uncertainty around the Local Government finance environment, greater external pressures in some of its demand led services and continued challenges in driving through a small number of remaining savings targets within its own budgets. The Council has also reassessed the financial position with regard to its anticipated tax revenues and a number of corporately controlled budgets with a view to mitigating this position. As a result the projected financial gap over the next three years has grown to £5m in 2019/20 rising to £30m.

As a result, the Council has been required to identify a number of new savings proposals within service departments to be included in this report as a basis for consultation. It is anticipated that the vast majority of these can be achieved without significant negative impact upon Coventry citizens. Taking all these proposals into account, the Budget gap would reduce to £0.6m in 2019/20 rising to £25m by 2021/22.

The financial proposals are based on the funding set out in the Local Government Finance Settlement announced in February 2016 – an equivalent 2019/20 Settlement Funding Assessment reduction for the Council of £7m. This is the final year of the Government's current 4 year settlement and the figures indicated are not expected to alter significantly in forthcoming Government announcements in December and February.

Further work will be undertaken to address the 2019/20 gap outlined in this report between now and the final Budget Report in February. This will include consideration of the additional resources announced for social care as part of the Chancellor's Budget announced on October 29th.

Details on individual spending and savings are provided in Section 2 and on a line by line basis in Appendix 1.

Indicative sums are included within the report for the Council's prospective Capital Programme for 2019/20 based on current knowledge. This will be updated in the February Budget Report, reflecting the most up to programme information available.

Approval is also sought to undertake a public consultation process through 2019 relating to the Council's grant support to external organisations.

Recommendations:

Cabinet is recommended to:

- (1) Approve the revenue spending and savings options in Section 2 and Appendix 1 and the broad Capital Programme proposals in section 2.6 as the basis for the Council's statutory budget consultation process;
- (2) Approve the proposed approach on Council Tax in Section 2.7; and
- (3) Approve officers making preparations for a public consultation exercise in relation to the Council's grant payments to external organisations.

List of Appendices included:

Appendix 1 – Pre-Budget Financial Position

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?

No

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Pre-Budget Report 2019/20

1. Context (or background)

- 1.1 In 2018/19, the Council is receiving c£113m less core Government grant than the equivalent figure it received in 2010/11. The four year settlement announced by Government in February 2016 indicates a further reduction of £7m in 2019/20 which will bring the loss suffered to c£120m per annum.
- 1.2 Confirmation of the Government's proposed settlement for the Council will be contained within the Provisional Local Government Finance Settlement which the Government has indicated will be released on 6th December. The final settlement announcement is expected in late January or early February 2019. The Council's existing participation in the West Midlands 100% Business Rates Retention Pilot will continue into 2019/20, the projected benefits and no detriment basis of which were set out in the 2017/18 Budget Report. One of the impacts of this is that the Council is effectively operating under a 100% Business Rates scheme and as a result of continuing reductions in its SFA, will be subject to a tariff of c£20m in 2019/20. This is required to be paid over to Government as part of the overall Local Government funding model.
- 1.3 When the 2018/19 Budget was set, the Council had a projected balanced budget position for 2019/20, albeit with significant gaps for the years following this. However, through 2018 it has become clear that some existing savings plans cannot now be delivered to the original timescale. In addition the Council is faced by additional unavoidable and demand led budget pressures, the most significant of which reflect a number of societal and social-economic factors that are affecting a number of councils across the country. This position has created a budget shortfall of £10m in 2019/20, a figure which rises to £31m over the medium term.
- 1.4 In 2020/21 the initial projected budget gap is £28m after identified budgetary pressures. It is in this year that the Government is intending to implement a new national Spending Review, a revised resource allocation model within the Local Government sector (the Fair Funding Review) and a new national 75% Business Rates Retention scheme. 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.
- 1.5 The City Council's Medium Term Financial Strategy (MTFS) which was approved by Council in October set out the national and local context in which the Council is operating and the financial assumptions within this Pre-Budget Report are aligned to the MTFS. Prior to setting the final Budget in February, the Council will be required by law to establish the Council Tax and Business Rates tax-bases for 2019/20 and declare any projected deficits or surpluses from previous years. Officers' best estimate of these tax-bases have been included in the financial projections within this report.
- 1.6 Sitting behind the overall financial approach is the Council's commitment to protect its most vulnerable citizens and to deliver a range of core services to everyone in the city. However, the Council's message to Coventry citizens is that it faces an increasingly difficult task to achieve this at the same time as dealing with continued austerity. In order to balance its Budget the Council is taking a number of broad approaches. It continues to seek ways of modernising services including making changes to service provision that require a different set of customer expectations and behaviour as well as the way that its employees work. The Council is keen to ensure that citizens are clear that savings in and cuts to some services will be essential including the proposals considered as part of previous Budget

reports. There will also be a focus on ensuring that the Council optimises the full-range of income sources that affect its overall budget including Council Tax and Business Rates revenue, external specific grants, fees and charges and other elements of income from commercial activities including loan finance and returns from property and treasury investments.

- 1.7 Taking all these factors into account the Council's senior managers have identified a range of savings which, for the most part, have limited or no direct impact on services to the people of Coventry. These are explained and set out in section 2 and Appendix 1.
- 1.8 This report proposes that the budget consultation is carried out on the basis that the Council will increase Council Tax levels by just under 3%, the maximum amount allowable by Government without triggering a referendum. Having used the full flexibility to raise a 3% Social Care Precept in each of the previous two years, there is no further capacity for an additional precept in 2019/20.

2. Options considered and recommended proposal

- 2.1 The remainder of the report details the financial position facing the Council and the specific proposals put forward for consultation. These proposals are detailed within Appendix 1.

Revenue

- 2.2 Following the 2018/19 Budget Report the Council faced a balanced budget for 2019/20 with significant budget gaps after this. A number of budget pressures and shortfalls in the achievement of savings plans have then created a revised budget gap over this period the most significant of which are outlined below:
 - The 2018/19 Quarter 2 budget monitoring report reflects an estimated cost of supporting families and individuals in temporary and supported accommodation that is £5.1m above 2017/18 budget levels. Significant work is being undertaken to address the underlying reasons for this but at the same time service pressures continue to grow in this area. The proposal here is to make budgetary allowance at the estimated existing spend level and this therefore adds to the amounts planned in 2018/19 budget setting (these amounted to £2.2m reducing to £1.5m across 2019/20 to 2021/22).
 - The savings profile for the Council's previous Workforce Reform programme increases to £5m in 2019/20. Initial elements of the programme will be in place for 2020/21 including the new staff parking scheme. However, the remainder of the programme - essentially a new pay and reward model - will not be in place on 1st April meaning that there will be a shortfall in delivery of the planned saving. The assumption here is that the model will be implemented part-way through the year but that only half of the overall £5m target will be achieved in 2019/20, with full delivery assumed for 2020/21.
 - Children's Services are working towards delivery of a previously approved savings target which will not be wholly met in 2019/20. It is anticipated that there will be shortfalls in relation to staffing (£1m) and supported accommodation (£0.5m) in 2019/20 only with these savings then anticipated to be delivered from 2020/21 onwards. The proposal does not make any allowance for any further cost pressures or increases in the number of Looked After Children.
- 2.3 There is a small number of policy proposals which it is proposed are funded within the overall 2019/20 Budget package of which the largest one is as follows:

- A five year UK City of Culture city readiness and legacy programme totalling £6.1m was approved by a report to Council on 4th September 2018. This provisionally incorporates time-limited service enhancements and additional capacity in the areas of: Culture, Heritage and Sports; Business, Jobs and Skills; Planning and Building Control; Licensing & Regulatory Services; Cleaning and Greening; Public Realm, Infrastructure and Highways; Traffic Management; Property Services; and Programme and Project Management. This proposal puts the financial resources in place to deliver these measures.

2.4 A number of the issues that will help to close the financial gap represent realignments of budgets that for the most part flow from existing policy and practice. In this respect these can be considered to be technical budget realignment that will not have a significant impact on services or citizens. The major ones are described briefly below:

- Council Tax income resources are anticipated from the actual 2017/18 and projected 2018/19 Council Tax surpluses in excess of previous figures budgeted. This reflects increases in the city's tax-base above the underlying estimate and includes the effects of growing housing numbers and continuing downward trends in the level of Council Tax Reduction Scheme payments and overall levels of discounts.
- The Council has maintained an on-going budget of £2.5m to fund the costs of redundancy and early retirement decisions over recent years, often supplemented by contributions from reserves. It is anticipated that these costs will be at a relatively low level in 2019/20 and the proposal here is to reduce this budget as a time limited saving against the bottom-line. Given the budget gap in 2020/21 onwards there remains a possibility that such costs may increase again in these years so the saving is only proposed on a one-off basis at this stage.
- The position reflects the latest estimate of planned for amounts for pay awards and inflation costs including a continued assumption that a number of Council budgets will not be increased in line with inflation.

2.5 If all these adjustments are incorporated there are still significant budget gaps over the medium term summarised in Table 1 below. The budget gap is forecast to be £5.3m in 2019/20 rising to £30.3m in 2021/22.

Table 1: Financial Position Before Service Saving Proposals 2019/20 to 2021/22

	2019/20 £000	2020/21 £000	2021/22 £000
Initial Budget Gap	0	20,767	23,549
Delayed Savings and Emerging Pressures	8,568	5,068	5,268
Expenditure Policy Options	1,607	1,907	2,307
Technical and Corporate Savings	(4,851)	(4,967)	(803)
Current Budget Gap	5,324	22,775	30,321

2.6 Senior Council officers have considered savings that may be achievable within their service area, focussing initially on savings that can be achieved within 2019/20 with a minimum of impact on services. The detail of these savings is included at Appendix 1 and these form the core of the proposals put forward for public consultation. The financial gap

assuming that all these items are approved as part of the final Budget Report would be as follows.

Table 2: Financial Position After Service Saving Proposals 2019/20 to 2021/22

	2019/20	2020/21	2021/22
	£000	£000	£000
Current Budget Gap Brought Forward	5,324	22,775	30,321
Proposed Service Savings	(4,740)	(6,014)	(6,384)
Current Budget Gap	584	16,761	23,937

- 2.7 This position shows a relatively modest budget gap for 2019/20 with a far more significant budget challenge for the years after this. Further proposals will be brought forward as part of the final Budget Report which will ensure that a balanced budget position is achieved in 2019/20. Whilst this is a manageable target given current known financial parameters, the position clearly becomes far more serious in 2020/21 and beyond. This is explored more fully in section 5.1.
- 2.8 There are a number of areas that can be reviewed or which may change ahead of final Budget Setting: the Council will need to finalise its Council Tax and Business Rates base and estimated outturn positions; the Government will announce the provisional and final Local Government Finance Settlements – although the initial assumption is that these will be in line with previous announcements; other issues may develop which could have a positive or negative impact on the bottom line as the Council seeks to finalise its estimated financial position; and the Council will need to establish the impact of the recent announcements made within the Chancellor’s October Budget, in particular in relation to adult and children’s social care. Although this latter issue could amount to a combined total figure in excess of £4m for 2019/20, the Council needs to work through Government expectations of how this money should be allocated or ring-fenced. This will inform the degree to which the announcements will provide mitigation of existing City Council cost pressures or additivity of service provision.

Capital

- 2.9 The Council has an aspirational draft five year capital programme which totals nearly £1.2billion. Of this nearly c£250m is currently cash-flowed for 2019/20. It should be said at the outset that much of this Programme is reliant on receiving future approvals from the West Midlands Combined Authority (WMCA). In turn these approvals will rely on the WMCA being able to secure funding streams that are equal in value to the amounts identified when the initial Devo-Deal was established. Work is on-going between the WMCA and the 7 West Midlands district councils to secure this programme.
- 2.10 The main components of the Council’s provisional programme are set out below with the figures quoted representing the projected sums earmarked currently for 2019/20. The five year programme and an updated cash-flow position will be included in February’s final Budget Report. The Programme includes:
- A strategic transportation programme of around £100m under the banner of UK Central incorporating the Coventry South package (including A46 works) and the Coventry Station Masterplan.

- Up to £85m of other economic regeneration and infrastructure works including the National Battery Manufacturing Development Facility, the Growth Deal programme, the Whitley South highway development and investment in sports and leisure facilities.
- City Centre Regeneration investment taking forward the city's Friargate District and City Centre South plans.
- Housing Investment Fund infrastructure works of over £20m
- Continued investment in the schools capital works including provision for the expansion of secondary places.

2.11 Much of these works impact upon significant strategic transportation links which will directly and indirectly improve connectivity across the region and support local economic regeneration. Although it can be difficult to see the immediate impact of these on a day to day basis, the overall programme will also witness the completion or near-completion of a range of landmark or significant local developments. These include the City Centre Destination Leisure Facility, the 50m pool at the Higgs Centre, a new Indoor Bowls facility, the Salt Lane multi-storey car park, the restructuring of the Upper Precinct and the redevelopment of Whitley Depot. The Council is also exploring opportunistic ways to make capital investments in facilities provided by local partners such as the Historic Coventry Trust and Coombe Abbey Park limited. This is ahead of, and does not include, any specific developments that will be taken forward as part of the City of Culture celebrations, the capital funding and planning for which are still in their relatively early stages.

2.12 The draft programme will be subject to change between now and February with every expectation that some of the proposed expenditure profile will be shifted to later years. It is important to be aware also that some of the schemes involve a complex mix of funding sources, multi-partner delivery arrangements and challenging planning, technical and approval cocktails that do not always lend themselves to smooth project delivery progress. In addition, challenges remain in securing the project staffing resources to take-forward the Programme which continues to be a risk factor in its successful delivery. In overall terms, given the large amount of externally funded and driven proposals within the Council's Capital Programme it is very likely that a fair degree of flux will continue to be experienced in its cash-flow over the next few years.

3. Results of consultation undertaken

3.1 The proposals in the report will be subject to statutory consultation requirements. The Council will communicate the report's key messages through usual means including social and digital media.

4. Timetable for implementing this decision

4.1 If approved, the proposals identified within this report will be implemented from 1st April 2019 in line with the profile set out in Appendix 1. This report does not authorise spending and savings decisions. This will happen in the final Budget Setting report in February.

5. Comments from Director of Finance and Corporate Services

5.1 Financial implications

The proposals in this report are wholly concerned with financial matters. In common with recent years, some of the issues reported reflect challenges that are common to a number of similar authorities across the sector in terms of emerging cost pressures and delivering

challenging transformation targets. Although the Council has been able to produce multi year balanced budgets in each of the last two years, this is not the case for the current budget setting round. This reflects both the continued impact of austerity which the Council's financial projections assume will extend beyond 2019/20 and the Council's recent saving and transformation plans which have been more limited in scope than those earlier in the decade.

The Chancellor's recent Budget claimed to mark the end of austerity and published a projection for Departmental Expenditure Limits (DEL) which indicated a real-terms flat spending allocation for Government departments excluding the NHS. Given that local government has previously fared less well than some other departments it remains reasonable to assume that future spending allocations will continue to come under downward pressure in the 2019 Spending Review.

The potential changes to the local government finance system expected from 2020/21 that are outlined in section 1.4 could have a profound impact on the whole sector and it is impossible at this stage to predict what these may be. Current financial assumptions for the Council are based on the continuation of existing trends which means the likelihood of further reductions in resources.

In October, the Council underwent a Peer Review in which senior officers, politicians and officials from across the local government sector assessed the Council's performance. In overall terms the review provided feedback that the Council was performing well in many of the areas assessed. With specific reference to financial matters, the review noted the significant pressures in children's services and homelessness. It recognised the work needed to deliver a balanced 2019/20 position and the high level of uncertainty regarding 2020/21 as well as the size of the current projected financial gap and rising service demand. This, combined with the cumulative impacts of savings that the Council has already had to deliver led the review to conclude that the Council would need consider proposals in the future that fall outside the existing way in which it works.

Unless there is a significant shift in national funding arrangements in the Council's favour, financial year 2020/21 threatens to be a very challenging one. Neither this report nor the final Budget report in February will offer solutions to balance 2020/21 and beyond at this stage. However, the Council's Strategic Management Board and its Director of Finance and Corporate Services intend to initiate early work to identify ways in which the Council can start to meet the budget gap indicated.

There is no expectation of significant uncertainty over the assumptions for the Council's funding position in 2019/20. Therefore, the work to finalise the 2019/20 Budget for February will focus mainly on fine-tuning (and ameliorating where possible) the cost pressures identified as well as the Corporate/technical measures including its Council Tax tax-base, capital financing costs and any one-off measures that can be used in line with the Council's Medium Term Financial Strategy.

Following the Chancellor's Budget announcements, there was widespread comment in the local government sector that the proposals were focussed on short-term measures and did not address some of the longer term structural issues being faced. In one sense this was always likely given the Spending Review and other local government finance changes expected in 2019. This approach was confirmed in the form of a number of one-off or short-term funding allocations provided to local government such as those for social care, potholes, Disabled Facilities Grants and schools. These do nothing to help Council's plan for 2020/21 and beyond and help to explain in Coventry's case why large financial gaps continue. In addition, the intelligence that has been received from Government sources

indicates that councils will not receive information about their prospective funding allocations within the new resource allocation system until very late in 2019.

The view of the Director of Finance and Corporate Services is that the Council cannot afford to be complacent or plan on an optimistic basis for the medium term. Any such approach would run the risk of facing financial gaps with little or no time to identify ways of addressing them. Therefore, it is proposed that a range of approaches will be taken relatively early in planning for 2020/21 to include:

- Identifying any service areas where the Council may want to undertake a specific consultation exercise to help inform the best way forward to deliver services. The proposal in this report is that the arrangements around the Council's grants to external organisations should be one of these areas.
- Identifying changes in service areas to be explored by senior Council officers and the Council's Cabinet at an early stage within 2019 to enable time for fully worked up proposals to be discussed, formulated and consulted on as appropriate.
- Senior Council officers identifying any longer term transformative ideas or more significant structural arrangements within the Council which may take more intensive development over a longer time-frame.

The Council's recent revenue and capital budgets have maintained a strong focus on helping Coventry become a growing and more prosperous city both to help protect and increase key tax revenue streams and reduce the reliance of some local residents on Council services. In addition, the Council has adopted more commercial approaches to identify new and increased revenue streams, including as part of the new savings in this report. These approaches have had some success in increasing the Council's financial robustness and self-reliance and protecting the fundamental services that protect the most vulnerable citizens which it is responsible for. However, if reductions in Government funding continue, it will be impossible to maintain the current level or quality of services provided to Coventry citizens. The Budget process ahead of 2020/21 will provide a major challenge to Council officers and members to identify the savings needed to balance the Budget whilst also seeking to show-off the city in its best light as it approaches the City of Culture year in 2021.

The Council's expansive Capital Programme reflects considerable success in attracting external grant funding and working with local partners to lever in funding for important projects often with a sub-regional dimension. This remains a critical part of the medium term revenue focus referenced above and is central to the Council's plans to increase local regeneration and prosperity. The challenges set out in section 2.12 above clearly represent a significant amount of risk to successful delivery of part of the Programme and will continue to occupy a significant degree of officer attention over the coming year.

5.2 Legal implications

The proposals in this report are designed to meet the Council's statutory obligations in relation to setting a balanced 2019/20 budget by mid-March 2019. This includes the duty to report to the Council on the robustness of the estimates provided and the adequacy of the financial reserves in place. Section 31A of the Local Government Finance Act 1992 and Section 25 of the Local Government Act 2003 refer.

6. Other implications

6.1 How will this contribute to achievement of the Council's Plan?

The Council, in common with all local authorities, will continue to be faced with challenging resource constraints although the precise nature and trajectory of this may be not yet clear. Individual savings and investment proposals set out in this report refer to the impact on front-line services which are limited on this occasion. The budget is developed within the context of the approved Medium Term Financial Strategy, which in turn rests on the principles set out for the City within the Council Plan. In this way pre budget proposals are aligned to existing policy priorities.

6.2 How is risk being managed?

The inability to deliver a balanced budget is one of the Council's key corporate risks. The proposals within this report are aimed directly at trying to mitigate this risk. The new savings that will be included in the Council's bottom line budget position are unlikely to represent a significant risk of non-achievement. However, the continued large budget gaps for future years will need to be addressed as part of the next budget process through 2019.

6.3 What is the impact on the organisation?

The new proposals in this report will have relatively limited impacts. However, the revenue gap to be managed in later years means that the Council will have to consider changes that might radically affect the way it works and the services it provides in the future.

6.4 Equalities / EIA

An initial assessment is that the savings contained in this year's pre-Budget report are unlikely to have any equality impacts. This position will be reviewed ahead of the final budget proposals being put forward in the new year, and any associated equality analysis will be carried out accordingly.

6.5 Implications for (or impact on) the environment

None

6.6 Implications for partner organisations?

None

Report author(s): Paul Jennings

Name and job title: Finance Manager (Corporate Finance)

Directorate: Resources

Tel and email contact: 02476 833753 paul.jennings@coventry.gov.uk

Enquiries should be directed to the above person.

Contributor/approver name	Title	Directorate or organisation	Date doc sent out	Date response received or approved
Contributors:				
Lara Knight	Governance Services Co-ordinator	Place Directorate	1/11/18	13/11/18
Jaspal Mann	Policy Officer	People Directorate	9/11/18	14/11/18
Helen Williamson	Lead Accountant	Place Directorate	2/11/18	2/11/18
Names of approvers for submission: (officers and members)				
Director: Barry Hastie	Director of Finance and Corporate Services	Place Directorate	9/11/18	12/11/18
Legal: Carol Bradford	Corporate Governance Lawyer	Place Directorate	1/11/18	2/11/18
Members: Councillor John Mutton	Cabinet Member (Strategic Finance and Resources)		14/11/18	15/11/18

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