

Cabinet

19th November 2019

Name of Cabinet Member:

Cabinet Member for Strategic Finance and Resources – Councillor J Mutton

Director Approving Submission of the report:

Director of Finance and Corporate Services

Ward(s) affected:

All

Title:

Pre-Budget Report 2020/21

Is this a key decision?

Yes

Cabinet is being recommended to approve, as a basis for consultation, the spending and savings proposals for 2020/21 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 2020/21 to 2023/24 which represent changes to the Council's existing Budget. The consultation also includes a proposal for a Council Tax increase for 2020/21 of c2% as allowed for within the Government's published guidelines and a separate 2% Adult Social Care Precept 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's overall future strategy is set out in the "One Coventry Council Plan" and this sets out the key priorities including improving the lives of the most vulnerable people in the city, attracting businessness and jobs to the city and opening opportunities for young people. The Council also remains committed to delivering a range of core services to everyone in the city. This report comes at a key time for the direction of local government funding. Councils including Coventry have been subject to large reductions in Government funding since 2010 but the Chancellor of the Exchequer's Spending Round announcement in September gave an indication that the policy of austerity has been paused to a large degree for 2020/21. Although no indicative figures have been released by Government, initial planning assumptions are that the Spending Round has eased the Council's financial position for one year compared with previous financial forecasts. Despite this, continued demand pressure in some services mean that the need remains to find savings in some areas in order to balance the Council's budget.

The Chancellor's Spending Round announcement included key messages on the delay of key expected reforms for local government funding which have now been put back until 2021/22 at the earliest. This, and the one-year settlement announced, continue to mean that local government faces enormous uncertainty for the period after 2020/21. As a result, this report and the Council's Medium Term Financial Strategy (considered alongside this report) have continued

to focus on the need for the Council to find more cost effective ways to deliver some services and ensure that it continues to release resources to fund its priorities.

This report includes a number of savings proposals to help bridge the initial budget shortfall for 2020/21. Moving beyond next year, the Council is developing a “One Coventry” approach that is exploring new approaches across several broad themes; commercialisation, digitalisation, place-based services and a workforce strategy. These approaches are planned to become an increasing focus of the Council’s financial strategy beyond 2020/21. An updated medium-term financial position is included within this report reflecting revised estimates and new expenditure pressures. As a result the projected financial position has been broadly balanced for 2020/21 but includes a gap of £28m in 2021/22 rising to £42m by 2023/24.

Although many of the new savings proposals included in this report can be achieved without a significant negative impact, there are some changes which will affect services. The proposals are made as a basis for public consultation and the results of the consultation will be reflected in the final Budget Report in February and considered as part of the final decisions recommended in that report. Further work will be undertaken to confirm all the financial assumptions between now and the final Budget Report in February.

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

Indicative details are included within this report for the Council’s prospective Capital Programme for 2020/21 based on current knowledge. This will be updated in the February Budget Report, reflecting the most up to programme information available. The draft Programme is based overwhelmingly on pre-existing decisions and patterns of expenditure.

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 as the basis for the Council’s statutory budget consultation process; and
- (2) Approve the proposed approach on Council Tax in Section 1.7.

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

Pre-Budget Report 2020/21

1. Context (or background)

- 1.1 In the current year (2019/20), the Council is receiving c£120m less core Government grant than the equivalent figure it received in 2010/11. The September Spending Round announcement indicated that local government would see the same level of core funding maintained in 2020/21 although individual authority settlements have not yet been announced. In this respect it is worth noting that there is no intelligence currently regarding the impact of the recent announcement of a December general election on the timing or content of the Local Government Finance Settlement. The assumptions in this report are that the Council will see its individual funding allocation maintained and that the other conditions indicated in the Spending Round will be honoured by the new Government.
- 1.2 Confirmation of the Government's proposed settlement for the Council will be contained within the Provisional Local Government Finance Settlement followed by a final settlement announcement. The Council's existing participation in the West Midlands 100% Business Rates Retention Pilot is anticipated will continue into 2020/21, the projected benefits and no detriment basis of which were set out in the 2017/18 Budget Report. Consistent with this, the Council is effectively operating under a 100% Business Rates scheme and will once again be subject to a tariff of c£20m in 2020/21. This is required to be paid over to Government as part of the overall Local Government funding model.
- 1.3 When the 2019/20 Budget was set, the following year (2020/21) financial gap stood at £17m, rising to £34m by 2023/24. These figures were based on broad assumptions about the future of the local government finance system. In the period since February, significant time has been spent identifying potential areas of future spending reductions or income generation, both to meet the immediate budget gap and to address the medium term financial position. Although the September Spending Round announcements have presented a more positive expectation for the 2020/21 local government settlement there are now strong indications that inflationary (pay-bill) costs and demographic and service related pressures will need to be taken into account.
- 1.4 The City Council's Medium Term Financial Strategy (MTFS), which is being brought to Cabinet alongside this report, sets 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 2020/21 and declare any projected deficits or surpluses from previous years. The best estimates of these tax-bases have been included in the financial projections within this report.
- 1.5 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 in line with the One Coventry Council Plan. However, the Council continues to face a difficult task to achieve this at the same time as dealing with a period of austerity that has been paused rather than ended. Therefore, in addition to the specific proposals within this report, the Council is exploring a number of other approaches in order to address future budget gaps. These are included within its One Coventry approach and are focussed on several key strands:
 - Place Based Services – Looking at how local services can best be delivered including through the prioritising and targeting of both Council and partner resources.
 - Commercialisation - Optimising income collection, maximising the use of our assets, reducing operational costs and exploring new delivery structures.

- Digital First - Delivering a Digital Strategy through a more integrated, primarily digital, and cost-effective operating model.
 - Workforce Strategy - A programme to further establish and embed the One Coventry approach and review some terms and conditions.
- 1.6 Ahead of these programmes delivering alternatives options for future service delivery, the Council has identified a range of individual savings. Whilst the intention has been to limit the direct impact on services to the people of Coventry and to Council officers, this has not been possible in all instances and the descriptions set out in Appendix 1 give an indication of implications of each proposal.
- 1.7 This report proposes that the budget consultation is carried out on the basis that the Council will increase Council Tax levels by just under 2%, the maximum amount allowable by Government without triggering a referendum. In addition, it is also proposed as a basis for consultation to apply the full flexibility to raise a 2% Social Care Precept in line with Government guidelines. As a result, if these changes are approved within the final proposals in February, Council tax bills would increase by just under 4%.

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 2019/20 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 previous profile for the Council's previous Workforce Reform programme assumed that the remaining undelivered £4.4m of savings would be achieved from 2020/21 onwards. It has become clear that none of the options considered as changes to the current pay and reward model are ones that the Council is looking to pursue at this time meaning that there will be a shortfall in delivery of the planned saving. As a result the proposal within this report is that the outstanding saving will be removed as a budget assumption – in effect increasing the budget gap by £4.4m on an ongoing basis. A new Workforce Strategy is one of the key strands of the Council's One Coventry approach to the Medium Term Financial Strategy and it is likely that this will feed into financial savings proposals put forward in future years.
- The 2019/20 Quarter 2 budget monitoring report reflects additional costs of supporting families and individuals in temporary and supported accommodation over and above the £6.1m extra budget provided in the last two budget setting processes. Significant work has been invested and is ongoing 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 spend level which will add a further £2.4m estimated cost to existing levels.
- The Council has had to rebase its inflation assumptions to reflect the matters including an assumption of 2% pay awards going forward (compared with 1% previously).

- Children's Services are working towards delivery of previously approved savings target which will not be wholly met in 2020/21 whilst it is also facing further pressure in relation to the number and high cost of placements. In total these pressures indicate that a further £2m will be required to support Children's social care budgets.
 - Special Educational Needs and Disability (SEND) transport is experiencing increasing demand for its services in a trend that reflects increases in SEN school places and the national picture. This is estimated to require a further £1.3m budget support in 2020/21.
- 2.3 The assumed overall resource position has improved significantly for 2020/21, reflecting the one-off injection of resources from the Government indicated by the Spending Round. These are set out in detail in Appendix 1 but in broad terms capture:
- A broadly standstill Government settlement (equivalent to that of 2019/20) compared with previously assumed resource reductions plus continuation of the new Homes Bonus.
 - Continuation of most existing social care grants and the announcement of an additional 2020/21 Adults' and Children's Social Care Grant. The position currently assumes fall-out of the Independent Living Fund for which the Council received £2.3m in 2019/20.
- In addition, Council Tax income resources are anticipated from the 2018/19 Council Tax outturn surplus in excess of previous figures budgeted. However, it is expected that the Council Tax referendum limit will be brought down from 3% to 2% for 2020/21 which will reduce the maximum amount that the Council could potentially raise from increasing Council Tax.
- 2.4 There is a small number of technical savings, the most significant one being a reduction in the budget to fund redundancy and early retirement decisions. These are expected to run at a lower level in future years and the budget can be supplemented if required by an earmarked reserve set up for this purpose.
- 2.5 The position after these adjustments are incorporated shows a significant budget gap in 2020/21, one that rises sharply in subsequent years.

Table 1: Financial Position Before Service Saving Proposals 2020/21 to 2023/24

	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Initial Budget Gap	16,720	23,796	30,370	34,370
Improved Assumed Resources	(26,090)	(10,213)	(9,388)	(13,527)
Non-Achieved Savings & Expenditure Pressures	17,274	24,605	28,753	32,437
Technical and Corporate Savings	(1,600)	(1,600)	(1,600)	(1,600)
Budget Gap Before Service Savings	6,304	36,588	48,135	52,680

- 2.6 Senior Council officers have considered savings that may be achievable within their service area. Although the aim has been to focus on savings that can be achieved with a minimum of impact on services the size of the financial gap and the level of saving required

means that some of these savings necessarily have some impact on service delivery and a small reduction in post numbers. 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 2020/21 to 2023/24

	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Current Budget Gap Brought Forward	6,304	36,588	48,135	52,680
Proposed Service Savings	(5,498)	(8,456)	(10,556)	(10,656)
Current Budget Gap	806	28,132	37,579	42,024

- 2.7 This position shows a relatively modest budget gap for 2020/21 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 2020/21. Whilst this is a manageable target given current known financial parameters, the position clearly becomes far more serious in 2021/22 and beyond. This is explored more fully in section 5.1.
- 2.8 There is 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 including the final position in relation to specific grant funding; the results will be known of the triennial superannuation review which will determine the Council's pension costs for the next three years; there may be an update on dividends available from one or more of the Council's shareholdings; and 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.

Capital

- 2.9 The Council has an aspirational draft capital programme which totals nearly £1.1 billion. Of this nearly c£272m is currently cash-flowed for 2020/21. 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 2020/21. 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 £112m under the banner of UK Central incorporating the Coventry South package (including A46 works, Coventry Station Masterplan and Very Light Rail).
 - Up to £93m of other economic regeneration and infrastructure works including the completion of the National Battery Manufacturing Development Facility, the Final Round of the Growth Deal programme, Whitley South highway development, investment in sports and leisure facilities and Public Realm works in preparation for City of Culture including remodelling of the Upper Precinct.

- City Centre Regeneration investment taking forward the city's Friargate District and City Centre South plans.
 - Housing Investment Fund infrastructure works of c£10m.
 - Continued investment in the schools capital works including provision for the expansion of secondary places under their One Strategic Plan.
- 2.11 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 are 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 2020 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. Although the Council has been able to produce multi year balanced budgets in previous years, this is not the case for the current budget setting round. This reflects the fact that the Council's current financial projections assume that future funding settlements from Government are unlikely to keep pace with the level of financial pressures expected to exist. This means that the Council will need to make good progress with the medium term financial plans being developed currently in order to balance future years budgets.

Although the Chancellor's recent Spending Round indicated an improved short-term funding position for the Council it was silent on expectations for future years. The Council has assumed improved financial settlements in the future compared with its previous projections but there is no firm evidence to support any of these estimates. Although the current position shows some very significant gaps, these could be closed significantly if future funding decisions allocate social care resources equivalent to those indicated for 2020/21. Equally, if the Government progresses the promised reforms to local government finance the Council may be a loser from changes to the Fair Funding Formula. In summary, the degree of uncertainty is such that there can be only limited confidence in the current financial projections beyond 2020/21.

Other than in the most optimistic of scenarios however, the Council is very likely to be faced with sizeable gaps in future years and the Medium Term Financial Strategy sets out

the Council's approach to managing this through the One Coventry transformation themes (Place based Services, Commercialisation, Digital First and Workforce Strategy) and a continuation in measures to support local economic regeneration and infrastructure improvements. Existing capital plans and a set of new project workstreams to deliver future financial savings are already in place to take this work forward.

Some work remains to finalise the 2020/21 Budget for February and will focus on fine-tuning (and ameliorating where possible) the cost pressures identified as well as identifying any flexibility within the final Government Settlement, technical measures including its Council Tax tax-base and pension cost forecasts and any one-off measures that can be used in line with the Council's Medium Term Financial Strategy.

Following the Chancellor's Spending Round announcements in September, 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. This approach was confirmed in the form of the short-term funding allocations announced for local government, including those for social care. These do nothing to help Council's plan for 2021/22 and beyond and help to explain in Coventry's case why large financial gaps continue.

The view of the Director of Finance and Corporate Services remains 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, the workstreams referred to above will continue to require a high degree of impetus to enable good progress ahead of 2021/22 Budget setting.

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. These approaches will continue in the year ahead as the Council seeks to work with its partners 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 2.11 above and the continued need to secure the remaining funding within the WMCA Devo Deal 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 2020/21 budget by mid-March 2020. 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 are not yet clear. Individual savings and investment proposals set out in this report refer to the impact on front-line services and the Council is seeking to minimise this. 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 2020.

6.3 What is the impact on the organisation?

The new proposals in this report are set in Appendix 1. In broad terms there will be a relatively small number of post deletions resulting from these measures and some of those will be met from existing vacancies. 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 significant 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?

There are little or no direct implications for partner organisations in the savings proposals but the Place based Services workstream with the Council's One Coventry approach is likely to involve discussions with the Council's partners in relation to how some services may be delivered, organised and located across the city in the future.

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