Appendix: Draft Medium Term Financial Strategy: 2021/20 – 2023/24

Introduction

This Medium Term Financial Strategy (MTFS) sets out the financial planning foundations that support the setting of the Council's revenue and capital budgets, including the policy assumptions and financial management framework that underpin the strategy.

National Context

Local authorities continue to face severe financial pressures. In recent years the National Audit Office has reported that local authorities have faced significant central government funding cuts of nearly 50% since 2010/11, which at a time of increasing service demand, particularly in the social care sphere, mean that many authorities are using reserves to fund services in a way that is financially unsustainable.

Both Covid-19 and the potential for the UK to exit the EU transition period without an agreement create great uncertainty and pose significant risks for the public finances, through the resultant impact on business downsizing or closures, unemployment levels, revenues and the demand for services. The Council, in common with many other local authorities, is now facing downward pressure across several sources of revenue, including business rates, council tax and income from areas such as car parking. A number of local authorities are facing financial crises, with S114 reports having been issued in recent years as some authorities struggle to set balanced budgets, with insufficient reserves to manage the transition to greater financial stability.

Economic uncertainty about the length and depth of any recessionary dip, how the UK economy comes out of it and how public finances are rebuilt at a national level, will impact on local authorities for many years to come. It is notable that the recent Government Spending Review primarily covers only one year rather a multi-year period. With the delay in business rates reform and the fair funding review and with the fragmentation of funding through the expansion of Covid-19 and other grants, the uncertainty is increased further.

The Local Dimension

In order to ensure that Council financial plans are robust in the medium term the Council's MTFS continues to be intended to cover a 3 year period. The starting point for the Council is that it faces a large budget gap across the planning period, with "starting gap" of £19m in 2021/22 rising to £38m by 2022/23, a total gap of £88m over the 3 years from 2021/22 set out in February 2020.

From a resource perspective Coventry has faced significant reductions over the last decade with like for like core government funding being c£120m less in 2020/21 than in 2010/11. Within this environment of downward pressure on resources, the Council has delivered very significant savings and identified other sources of income in order to balance its overall budget. Reserves have continued to provide a one-off resource to meet investment needs.

Against this backdrop local government has had to manage impact of Covid-19. Whilst the Council has received unprecedented Government support for general expenditure and income pressures totalling £33m, local authorities remain vulnerable to further shortfalls between Government funding and the costs that they have incurred or the income that they have lost. In response to Covid-19, the Council has provided appropriate support to local citizens, service users, businesses ratepayers and suppliers, including the passing on of specific ringfenced funding to Business Ratepayers (in the form of rates relief and business grants) and recipients of Council Tax support, together with being actively involved in a wide range of other measures in relation to controlling Covid-19 and managing the social, environmental and economic impacts.

Apart from the financial pressures that all public bodies face, there are a range of developments set out below, which impact on the City Council:

- The importance of the West Midlands Combined Authority (WMCA) as a route to maximising investment in Coventry to drive growth and more efficiently co-ordinate services across the sub-region. Of the WMCA's planned contribution of £438m to the Council's capital programme, some £193m has been agreed in principle only, effectively being dependent on future WMCA resourcing decisions. The precise arrangements and processes through which WMCA programmes are financed, through for example any potential Council Tax levy or Business Rates supplement, are yet to be determined. Consequently, the significance of the programmes and the associated resourcing streams mean that these areas continue to represent a financial risk to the authority over the MTFS period.

- The operation of integrated social care and health services within the Better Care Fund, now within the context of Sustainability and Transformation Plans across the health sector. This area continues to operate within a very dynamic environment with expanding adult social care user numbers and increasingly complex care packages. Alongside this, the Government has operated a series of short-term grant funding streams for social care ahead of the much-delayed Adult Social Care Green Paper. There is no indication at present of how this funding will be organised beyond 2021/22.

- Commercialisation continues to be important for the financial sustainability of the authority, both in terms of expanding and cementing a broad income base. The economic impact of Covid-19 and the recent changes governing the Public Works Loan Board create greater challenges for commercialisation, but opportunities will still exist either though investment or doing things differently. Nevertheless, the economic climate with inevitably mean that the consolidation and support of existing commercial ventures will be the priority.

- The critical importance of regeneration together with economic support and growth, particularly in the light of the potential changes to business rates and the impact of Covid-19. The Government has trailed its Shared Prosperity Fund as a replacement for European Union grant funding for (largely) capital projects but it is too early to determine the degree to which this will replace the level of European grant funding that the Council has achieved in recent years.

- The city's large population growth and the consequent demographic and socio-economic trends are causing increases in demand or expenditure pressures in areas such as social care and waste disposal. The costs of housing homeless individuals and families has been a very significant additional cost pressure and has represented one of the most challenging recent financial developments to face the Council. There are now signs that measures the Council has put in place to provide accommodation for homeless individuals and families are beginning to mitigate these pressures and their financial effects.

- The continued difficult economic circumstances for many resulting from trends including changes to the Government's welfare reforms have affected the number of people seeking to access local government and voluntary sector services. In addition, the early signs of economic downturn in late 2019 plus the catalyst for further financial distress caused by COVID-19 has seen an increase in Council Tax Support claimants after several years of falling numbers which will inevitably add to this service pressure.

- The schools sector continues to be fragmented across maintained, academy and free school provision. This has changed the face of local education provision with the reduced role of councils putting more pressure on the remaining rump of local authority education services and finances.

- Whilst the city will benefit significantly from being the 2021 City of Culture this will inevitably now occur through an adapted programme taking into account Covid-19 which has already caused the Programme to shift from the 2021 calendar year to one starting in the Spring of 2021 and finishing 12 months later. The Council has identified resources to support the City of Culture Trust and to cover additional pressure on its own services whilst also agreeing to be the accountable body for a largely grant funded programme of capital expenditure. The longevity and extent of Covid will determine the extent to which the programme of events can return to some degree of normality.

There are a number of local factors that provide a solid foundation on which the city can build towards sustainable economic growth: two major universities; excellent transport infrastructure links; pockets of highly innovative businesses; significant infrastructure and connectivity investment including Friargate, Coventry station and very light rail project. Furthermore, major events such as, UK City of Culture 2021 and the Commonwealth Games 2022 are key to improving the attractiveness and desirability of the city as a venue.

However, significant challenges do exist for the city. Both the level of disposable household income and unemployment are higher than the national average, with the former higher than the West Midlands average, whilst inequalities in healthy life expectancy exist between areas of the city and homelessness continues as a problem. These are set out in full within the Council's Annual Plan Performance Report 2019/20 and improvement in these and other measures will continue to be the focus of activity across Council services.

Resource and Planning Position

The starting point for the Council's MTFS is the forecast multi-year **revenue programme** set out in the 2020/21 Budget Report in February 2020. Whilst the 2020/21 financial year was balanced, the current planning process starts with significant forecast deficits from 2021/22:

	2021/22 £000	2022/23 £000	2023/24 £000
Position Carried Forward from 2020/21	19.1	30.8	37.8
Total Resources Change	(13.2)	(21.7)	(17.9)
Total Non-Achieved Savings	1.0	0.7	0.7
Total Expenditure Pressures	10.4	8.8	7.8
Total Income Pressures	4.5	4.8	2.6
Total Directorate and Technical Savings	(6.4)	(6.5)	(7.6)
Total Reserve Contributions	(9.2)	1.0	1.0
Total Budget Deficit/(Surplus)	6.2	17.8	24.3

The Pre-Budget Report, which will be considered by Cabinet in December 2020, sets out the detailed financial position over the next 3 years, including emerging pressures and the non-delivery of programmed savings, together with potential technical savings to partially offset the impact of these. At quarter 2 the forecast outturn for 2020/21 was a net overspend of £3.5m, taking into account the impact of Covid-19, and prior to the implementation of measures to balance spend to budget as at the year end. Significant pressures exist across several areas including children's services, adult social care, waste and highways and transport including car parking income.

The current **capital programme** approved in February 2020 includes the following expenditure profile:

	2021/22 £m	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**
Capital Programme Spend	**173.0**	**172.8**	**60.5**	**64.2**

This programme provides for several large investment schemes including the Coventry Station Masterplan, a second Friargate building, regionally significant infrastructure schemes through the UK Central Connectivity programme, housing infrastructure, public realm, as well as investment in school buildings and business development. Of the total 4 year planned capital spend, £321m is resourced by grant, including significant sums through the WMCA, and £122m by prudential borrowing.

The level of prudential borrowing funding has increased in recent years, as significant sums have been invested through the capital programme. Whilst the authority has usually been able to cashflow investment through temporarily using other balances, for example grant monies received up-front prior to spend, this is very unlikely to be the case in future. External borrowing will increasingly be required in line with the underlying Capital Programme. The short term/long term mix of any borrowing will be determined by the Council's cashflow needs and the interest rate environment.

The Council has significant reserves including **revenue reserve balances** of £89.9m; £32.9m of **capital reserves** earmarked to fund major capital schemes, and £21.3m of reserve balances belonging to or earmarked to support **schools**. The Council's reserves are reviewed in order to assess their adequacy for current known liabilities and approved policy commitments, with the objective of releasing reserves where they can be better used to drive efficiencies and service improvement or support policy priorities. The make-up of the Council's reserves as at 31st March 2020 was:

Table 2 Summary of Reserve Movements in 2019/20

	Balance at 31st £000	(Increase)/ Decrease	Balance at 31st March £000
General Fund Balance	(10,277)	0	(10,277)
Adult Social Care	(3,534)	521	(3,013)
Public Health	(788)	(568)	(1,356)
Troubled Families	(1,095)	594	(501)
Leisure Development	(1,334)	510	(824)
Kickstart Project	(1,278)	1,278	0
City of Culture	(4,750)	750	(4,000)

Potential Loss of Business Rates Income	(7,735)	0	(7,735)
Early Retirement and Voluntary Redundancy	(10,070)	747	(9,323)
Covid-19 Government Funding	0	(7,558)	(7,558)
Reset and Recovery	0	(5,467)	(5,467)
Commercial Developments	(4,000)	(419)	(4,419)
Insurance Fund	(1,698)	977	(721)
Management of Capital	(5,399)	(165)	(5,564)
Private Finance Initiatives	(10,169)	702	(9,467)
Other Directorate	(9,489)	(1,799)	(11,288)
Other Directorate funded by Grant	(1,564)	502	(1,062)
Other Corporate	(8,589)	1,243	(7,346)
Total Council Revenue Reserves	**(81,769)**	**(8,152)**	**(89,921)**
Council Capital Reserves			
Useable Capital Receipts Reserve	(21,467)	(9,632)	(31,099)
Capital Grant Unapplied Account	(1,894)	60	(1,834)
Total Council Capital Reserves	(23,361)	(9,572)	(32,933)
School Reserves			
Schools (specific to individual schools)	(20,308)	2,301	(18,007)
Schools (related to expenditure retained centrally)	(6,084)	2,786	(3,298)
Total Schools Reserves	(26,392)	5,087	(21,305)
Total Reserves	**(131,522)**	**(12,637)**	**(144,159)**

One Coventry Council Plan

The MTFS rests on the principles, visions and priorities set out for the City within the One Coventry Council Plan 2016-2024, which was revised in September 2018. In summary these are:

- Globally Connected;
- Locally Committed;
- Delivering our Priorities with Fewer Resources.

The full plan is available on the Council's website or via the following link: One Coventry Council Plan 2016-2024

The plan is currently being refreshed in order to address the challenges that have emerged as a result of Covid-19, and to fast track the development of measures to address these through the mobilisation of strategic change programmes. The emerging priorities are to secure economic growth, together with addressing both mental health and domestic abuse issues.

Strategic Policy Assumptions

The One Coventry approach is central to the achievement of the aims set out in the Council Plan, by focusing on the way in which the Council and its employees work, both within the organisation and collaboratively more widely, in order to improve services and make the biggest possible positive impact on people's lives.

This incorporates a Transformation Programme to help identify savings that can deliver a balanced budget over the medium term. The programme is being developed to enable the Council to: optimise income collection, maximise the use of our assets, reduce operational costs and exploring new delivery mechanisms; deliver the Council's Digital Strategy through a more integrated, primarily digital, and cost effective operating model; making better use of our operational property to help deliver local services; improve our organisational design and culture to support effective and efficient ways of working; and work with partners and communities to build capacity and make the most effective use of city-wide resources

The Council's Budget plans for 2021/22 contain a short-term tactical approach consistent with the period covered by the Government's Spending Round and taking into account the lack of information on the future for local government finance. This includes the identification of technical savings within corporately held budget areas and reserve contributions to manage one-off pressures.

One of the unseen impacts of Covid has been the delay the work programmes under way to identify opportunities within the transformation themes above that will identify longer-term savings. As a result, no savings are being built into the 2021/22 Budget but are

The engagement in partnership working is central to the delivery of the One Coventry Council Plan and the MTFS, through: -

- The Council's membership of the West Midlands Combined Authority providing the opportunity to maximise investment in the city and work more efficiently across the region;
- Integrated working of Health and Social Care through the Better Care Fund;
- Partnership with various stakeholders such as the Coventry and Warwickshire Local Enterprise Partnership in driving economic growth;
- Engaging voluntary bodies in order to develop alternative delivery models to enable local services to be delivered at a reduced cost.

Consistent with the One Coventry Commercialisation workstream, the Council will seek to maximise income through several routes:

- maintaining the Council's default position that fees and charges should increase annually in line with inflation;
- identifying opportunities to commercialise existing activities or identify new activities that are consistent with a commercial approach.
- generating capital receipts where there is a clear business case for doing so by disposing of property and thereby providing funds for capital reinvestment in services, driving growth or making savings through the repayment of debt.

As part of Covid-19 support which it is now expected will continue to some degree into 2021/22, grant allocations provided by Government will be used either:

- to put in place programmes or specific measures specified by Government within its grant determinations or;
- to manage pressures from the additional expenditure incurred and income lost as a result of COVID-19 and/or to balance the overall bottom line as appropriate.

The Council will continue to seek opportunities to make investments in a selective manner in commercial ventures to secure a financial return and achieve service policy objectives where consistent with its priorities, the One Coventry Council Plan and the Commercial Investment Strategy. Such investment, for example in the further development of Friargate and the Materials Recycling Facility, will potentially include property schemes, share purchase and the provision of loans to external organisations, and will usually be designed to meet both service and financial objectives. This is likely to entail providing further investment to existing ventures for the purposes of both expansion and consolidation.

The capital programme will continue to be resourced from several sources including prudential borrowing, capital receipts and grant. The Council will seek to restrict the revenue funding of capital to on-going programmes of expenditure.

Given the level of capital programme, the Council is more likely to need to borrow for capital investment than it has in recent times. When borrowing, the Council will look beyond the traditional source of the Public Works Loans Board (PWLB), in order to minimise financing costs. Although PWLB borrowing rates were increased in 2019 as 1% was added to the margin applied nationally, this has now been reversed, significantly lowering PWLB rates. However, in order to limit the extent of local authority commercial investments, the government has now prevented authorities taking out PWLB borrowing where an authority plans to make any investment “primarily for yield”, regardless of how the investment is resourced. The full implications of this, including any policy impact will be considered in the 2021/22 Budget Report and Treasury Management Strategy but the starting point will be a pause on any further commercial investment until an appropriate medium term investment and borrowing strategy has been identified which best meets the Council’s needs within the new treasury environment.

Through the Local Plan, the Council is seeking to take the city forward by working closely with its neighbours and partners. In order to drive further growth, the plan identifies land to satisfy the demand for homes, community and commercial uses, as well as addressing the need for digital connectivity and the right infrastructure.

The Council is obliged to work towards ensuring that its pension liabilities within the West Midlands Pension Fund are funded. The Council’s level of funding last reported was at 98% which is much improved of the previous position. Its contributions to the pension fund stand at 22.9% in 2020/21 as a proportion of the superannuable payroll. As an alternative to making monthly payments, in order to efficiently manage the burden of contributions, an upfront payment of £97.8m was made in 2020/21 to cover the next 3 years. The Council will continue to work with the West Midlands Pension Fund to agree employer pension contributions that strike a balance between increasing the funding level over the long-term and maintaining sustainability and affordability in relation to the Council’s overall financial position.

Strategic Financial Management Framework

The Strategic Financial Management Framework encompasses the Council’s strategic financial management processes and the key financial assumptions on which the MTFS rests.

The financial management processes that underpin the MTFS are:

- A corporate planning and monitoring process that considers capital and revenue together;
- Overall direction undertaken by Strategic Management Board (SMB), with Corporate Leadership Team overseeing transformation programmes, quarterly monitoring and development of Budget proposals;

- A framework founded on delegation and clear accountability, with budgets managed by the designated budget holder, reported through Service Management Teams, Strategic Management Board, Cabinet and Audit and Procurement Committee;
- A drive to identify efficiencies and achievable savings to enable the Council to optimise delivery of its policy priorities;
- Strong project management approaches, including a specific focus on cost control and programme delivery;
- Where feasible, the establishment of a balanced revenue budget and capital programme over the medium-term planning period.
- The management of reserves in a way that supports the MTFS and the Council's priorities. In particular, the City Council's approach is based on:
  - A policy that reserves are not to be used to: (i) meet on-going expenditure or (ii) fund capital expenditure other than for mostly short life asset rolling programmes or in exceptional circumstances, for capital schemes of major importance;
  - The classification of reserves as a corporate resource, with Cabinet via Strategic Management Board considering the application of budgeted amounts unspent at year end;
  - Holding reserves for a clearly identifiable purpose. This will include protecting against known or potential liabilities, at a minimum level consistent with adequate coverage of those liabilities, considering the overall level of risk faced by an organisation of the City Council's size.

    The Council's initial Budget proposals for 2021/22 contain a higher than usual level of reserve contributions. This reflects the extra-ordinary circumstances that have arisen as a result of Covid. Nevertheless, these proposals have been formulated in a way that complies with the reserves' strategy outlined above.

The key financial or technical assumptions that underpin the MTFS are:

- The Council's funding level for 2021/22 has been set out indicatively by the Government's one-year Spending Round. Beyond that, the initial forecast builds in some reductions in resource levels over the remaining years of the medium-term plan;
- As a technical assumption, Council Tax increases of just under 2% per annum and no further Social Care precept increases beyond 2021/22. This will be subject to political debate and decision as well as any changes at a national level;
- Increases in pay budgets of 2% per annum beyond the local government pay freeze announced for 2021/22. This area will be kept under close review and it is expected that the Council will continue to reflect sector agreed pay awards;
- Business Rate income will be assumed to be inflated broadly in line with recent CPI inflation levels but flexed each year where shorter-term inflation expectations dictate.
- Planning based on the underlying Council Tax-Base growing at 0.8% per annum in line with historical trends but flexed each year where shorter-term expectations dictate;
- The budget for the Council's Asset Management Revenue Account will continue to be reviewed annually in detail as part of the MTFS, taking into account any impact of changes in: the capital programme, cash-flow forecasts, the level of provision to repay debt through Minimum Revenue Provision (MRP) and forecast interest rates. The Council's Minimum Revenue Provision (MRP) policy will be based on an approach that is both prudent and affordable in a way that reflects the long-term nature of local authority debt and assets;
- Forward financial estimates will be guided by existing CPI inflation levels in line with practice adopted across a broad range of public sector areas. This will provide the financial planning benchmark for increases in fees and charges and any areas of expenditure subject to specific inflation requirements assessed by the Director of Finance. Actual

increases in fees and charges will depend upon local factors such as the need to generate enough income to meet the cost of trading services. The majority of non-employee based expenditure budgets will not be inflated – the assumption will be that continued procurement and commissioning work plus underlying efficiency savings and the reduced purchasing requirements of some services will deliver savings equivalent to the cost of inflation. Several areas subject to external contracts are more likely to reflect inflation patterns dictated by pay inflation and this expectation will be built into Council budgets in the affected areas.